REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: June 21, 2013

TO: Honorable Members of the City Council

FROM: Gerry F. Miller, Chief Legislative Analyst — Assignment No: 13-06-0534

SUBJECT: The Village at Westfield Topanga Tax Subvention Terms

SUMMARY

In December 2012, the Council approved a Memorandum of Understanding (MOU) (C.F. 11-1980-S5) outlining the terms of a subvention to assist in the development of the Village at Westfield Topanga (Project), to be developed by Westfield, LLC (Developer). As proposed, the Project would create a 1,027,994 square-foot mixed-use project consisting of approximately 444,144 square-feet of shopping center uses, office space, and a hotel. The Project includes approximately 167,759 square-foot for an anchor retailer, which would support an ancillary member-only fueling station, approximately 278,985 square-feet of additional retail space, 285,000 square-feet of office use, 53,635 square-feet of restaurant uses, a 36,765 square-foot grocery store, approximately 3,362 parking spaces, a 14,250 square-feet community/cultural center, and a 193,000 square-foot hotel with up to 275-rooms, ground floor dining and retail uses. The Project will be located on the corner of Victory and Topanga Canyon Boulevards in Warner Center.

Also included in its action of December 2012, the Council instructed the Chief Legislative Analyst (CLA) to evaluate possible forms of economic development incentives for the Project and authorized the hiring of a consultant to conduct the necessary financial analysis. In response, an RFP was released and Rosenow Spevacek Group, Inc. (RSG) / PKF Consulting USA was selected to conduct the fiscal analysis, which identified a project feasibility gap of approximately $48.88 million.

For a project of this type, current City policy allows for a subvention of no more than 50 percent of net new revenues generated from a project through the creation of a Community Taxing District (CTD). Preliminary discussions between the City and the Developer have identified a subvention amount of approximately $25 million net present value (NPV) or 42 percent of the estimated net new revenues to be generated by the Project, over 25 years to support the development of the Project.

Should the Council choose to proceed with providing financial assistance to the Project, a Subvention Agreement would need to be negotiated. An amendment to the City's CTD ordinance (C.F. 04-2566-S2) will also be necessary to allow for the rebate of additional forms of City revenues, such as property tax.

RECOMMENDATIONS

If the Council chooses to proceed with a subvention for the Village at Topanga Westfield project, the Council would need to take the following actions:

1. AUTHORIZE the CLA and City Attorney to negotiate a Subvention Agreement and other related documents that are in conformance with the Memorandum of Understanding and include a community benefits package that maximizes that the City's benefit, and authorize the Mayor to execute said agreement;

2. AUTHORIZE the City Attorney to prepare the necessary documents for the formation of a Community Taxing District and prepare and present an ordinance to allow for the rebate of additional forms of City revenues using the Community Taxing District structure, if requested; and

3. INSTRUCT the CLA to report to Council with the final Agreement(s) for Council approval.

FISCAL IMPACT STATEMENT

The Village at Topanga Westfield project is estimated to generate net new revenues of $61 million net present value in various General Fund revenues over 25 years. As proposed, the Village at Topanga Westfield project would retain up to $25 million (net present value) in net new revenues in various General Fund revenues.

ENVIRONMENTAL REVIEW

Approval of this action shall not constitute approval of any required environmental analyses, including but not limited to compliance with the California Environmental Quality Act (CEQA). It shall be the responsibility of the Developer to meet the requirements of CEQA.

BACKGROUND

On May 9, 2012, the City Council approved Motion (Zine-Wesson) instructing the CLA to evaluate The Village at Westfield Topanga project for possible forms of economic development incentives for the Project. The Developer has indicated that they would require financial assistance from the City in a form similar to that provided to Wilshire Grand and the Olympic North Hotels. Without this assistance, they contend that construction of the Project is not feasible.

On December 12, 2012, the City Council adopted a CLA report that authorized the CLA to execute a Memorandum of Understanding to negotiate the terms and conditions necessary to provide financial assistance to the Developer. The action also authorized the selection of a consultant to conduct the analyses necessary to evaluate the economic impacts of this Project. As a result, the CLA conducted a competitive bidding process for qualified consultants and selected the combination of Rosenow Spevacek Group, Inc. and PKF Consulting USA to conduct the financial analysis for the retail and hotel components of the Project.

After a comprehensive financial and economic assessment of the Project, the City's consultants concluded the Project has a feasibility gap of $48.3 million for the retail component, and $500,000 for the hotel component, for a total of $48.8 million. If the Project were constructed, it

is estimated that it would generate $140.1 million or $61 million NPV over 25 years. RSG estimates that 1,287 construction and 1,597 new direct jobs would be created as a result of the Project.

In conformance with the MOU and City policy, the Project is eligible to receive no more than 50 percent of net new revenues generated by the project. This amount is estimated at $30.5 million over 25 years, but preliminary discussions between the City and the Developer have identified a subvention amount of approximately $25 million net present value in order to reduce the impact to the General Fund. With a total project feasibility gap of $48.8 million, the Developer will be responsible for identifying resources to close the remaining $23.8 million project gap.

The Developer has confirmed that the Project will be built in one phase and has been reduced in size to a 631,703 square foot mixed-use project. The proposed 275 room hotel is currently planned to be a 158 room Hyatt House hotel and the entire project will encompass a 30.67 acre site. Also included in the Project is a Costco membership warehouse store and gas station, a wide variety of restaurants, retail shops, and a five-level above-ground parking structure.

Community Benefits Package

As part of a subvention agreement, the Developer will be required to implement a community benefits package in addition to those included in the Development Agreement (C.F. 11-1980). A preliminary list of potential community benefits includes:

- The Developer is to implement a local hiring/ first source / minority business recruitment
- The Developer is to satisfy LEED Silver or equivalent for the shell buildings comprising the project
- Completion of the development of all the infrastructure associated with the project by 2015 that benefits the West Valley community of the City
- To maximize tax benefits realized by the City of Los Angeles, Developer will cause the City of LA to be designated as point of sale for construction purchases for the project
- Provide digital signs within the project for displaying public service announcements and community messages
- Dedication of the community center
- Contribute $100,000 to the local Police Station for purchase of needed equipment
- Commit to constructing the base building shell and hotel building shell with union labor in certain trades at no less than prevailing wage
- Operate the Hotel with Union Labor
- Provide meeting space in the Hotel free of charge to community non-profit groups
- Include public art and programming in the Project's outdoor plaza
- Establish a $500,000 scholarship fund for high school seniors to be administered by a three-member committee
- Establish a location for San Fernando Valley's Walk of Hearts, and annual recognize the Valley's top educator and teacher

Community Taxing Districts

If approved by Council, City financial assistance would be provided as a rebate through the creation of a Community Tax District. The hotel developer would pay the special tax and it would then be rebated and used by the developer to provide construction financing.

Michael K. Kek
Analyst

Attachment: Village at Westfield Feasibility and Economic Impact Assessment

ATTACHMENT

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VILLAGE AT WESTFIELD FEASIBILITY AND ECOMONIC IMPACT ASSESSMENT

Office of the Chief Legislative Analyst
City of Los Angeles

May 3, 2013

ROSENOW SPEVACEK GROUP, INC.
www.webrsg.com

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INTRODUCTION

Westfield, LLC has proposed to develop a 631,703 square foot mixed-use project branded as the *"Village at Westfield Topanga"* ("Project") on a 30.67-acre site they own at the southeast corner of Victory and Topanga Canyon Boulevards in Warner Center. As proposed, the Project would consist of a 158-room Hyatt House hotel, a Costco membership warehouse store and gas station, a wide variety of restaurants, retail shops and service uses, and a five-level above-ground parking structure.

In 2011, Westfield presented plans for the Project to the City of Los Angeles ("City") and subsequently completed much of the required plan and environmental review on the Project. During this process, Westfield concluded that the Project could not be developed feasibly, and began discussions with the City to underwrite a portion of the project shortfall, which they estimated to be $91.4 million. Westfield is requesting financial participation in the Project using site-specific tax revenue financing, wherein the City would rebate a portion of Project-generated revenues to assist in the development costs.

On May 9, 2012, the City Council directed the City's Office of the Chief Legislative Analyst Office ("CLA") to evaluate the Project for potential economic development incentives that could help offset a portion of the Project funding gap. The CLA engaged consultants to evaluate the Project proposal prepared by Westfield and specifically evaluate the following:

- The overall financial feasibility of the Project;
- The net fiscal impact of the Project and the net new revenue available to aid in development costs; and
- The larger economic impact on the City.

The CLA retained Rosenow Spevacek Group, Inc. ("RSG") and PKF Consulting USA ('PKF") to complete a comprehensive financial and economic assessment of the Project.[1] The assessment contained in this Report provides the City with an independent assessment of the overall terms, conditions, and impacts of the Project as an adjunct to the City's transactional negotiations with Westfield. The City can use this information to determine if the Project requires financial assistance and the level and type of any such assistance that is needed.

The projected development cost, feasibility gap, and site-specific tax revenues presented in this Report are based upon information provided by the Westfield development team. RSG and PKF verified the assumptions presented by the Westfield development team and made adjustments when documentation did not support the assumptions provided. Therefore, some of the information relies on the data Westfield provided and variations to this information have been noted throughout this Report. The projections have been conservatively estimated in order to reduce the possibility of overstating values.

PROJECT DESCRIPTION

The Project is located in the Warner Center area of the City, generally bound by Victory Boulevard to the north, Owensmouth Avenue to the east, Erwin Street to the south, and Topanga Canyon Boulevard to the west. The site includes the area for the proposed development, and two other existing structures that would be owned by Westfield as part of the project: a 34,200 square foot two-story Crate and Barrel retail store located at 6360 Topanga Canyon Boulevard, and a 41,480 square foot two-story office building located at 6351 Owensmouth Avenue. Surrounding uses include office and regional and neighborhood-serving retail commercial uses.

Primarily retail in nature, the Project would be in close proximity to two existing Westfield regional shopping centers – the 1,637,088 square foot Westfield Topanga to the north and the 614,396 square foot Westfield

[1] PKF Consulting focused exclusively on the hotel component of the project.

Promenade to the south. According to extensive interviews with Westfield's development team, the Project is intended to add a different mix of retailers that is not currently in the two existing developments or the adjacent market area. Westfield has stated that, aside from relocating an existing 134,678 square foot Costco currently operating at 21300 Roscoe Boulevard, the Project would not relocate other existing businesses in the trade area.

The proposed land use program for the Project is summarized in Table 1. [2]

Distribution of Commercial Space by Use — **Table 1**

Use Category	Gross Leasable SF
Retail	**363,765**
Shoppers Goods	163,548
Food and Beverage Stores	28,111
Eating and Drinking Places	71,729
Miscellaneous Retail	15,773
Spa and Salon Services	26,831
Fitness Center	42,774
Museum/Community Facilities	15,000
Costco	**155,085**
Partial Costco	20,407
Remainder of Costco (existing Costco)	134,678
Hotel	**112,853**
Total	**631,703**

Sources: HR&A "Economic and Fiscal Impact Analysis" (October 2012) and Hyatt House Floor Plans (October 9, 2012)

The Project's implementation schedule estimates that it will take approximately two to three years to complete construction. It is anticipated that construction of the Project will begin in 2013 and will be completed in 2015. Construction phasing for the retail component is estimated at 20 percent and 80 percent and the Costco component at 10 percent and 90 percent will be built in 2013 and 2014 respectively. The hotel component is estimated at 50 percent built in 2014 and 50 percent built in 2015.

EXECUTIVE SUMMARY

As part of their submittal to the CLA, Westfield submitted a three market, financial, and economic studies of the Project by HR&A between October and November 2012[3], which generally concluded the following:

- Project would face a feasibility gap of $91.4 million, as development costs were significantly higher than the capitalized net operating income and terminal value based on their assumptions;
- Net fiscal impact to the City through the year 2040 would be approximately $52.9 million in 2012 dollars; and
- The Project would yield 1,568 direct construction jobs, 2,351 direct permanent jobs, and 766 indirect (business-to-business) and induced (consumer spending) permanent jobs.

RSG and PKF reviewed the three studies, interviewed the Westfield development and consultant team, discussed the project with pertinent City staff, studied project plans and environmental documents, and

[2] Partial Costco refers to the square footage in the Project that is greater than the existing Costco space along Roscoe Avenue.

[3] As referenced throughout this Report, the HR&A studies refer to: 1) Analysis of the Financial Feasibility of the Village at Westfield Topanga, City of Los Angeles, 11-27-12; 2) Analysis of the Market Potential for the Retail and Hotel Components of the Village at Westfield Topanga, City of Los Angeles, October 2012; and 3) Economic and Fiscal Impact Analysis of the Village at Westfield Topanga in the City of Los Angeles, October 2012

conducted our own independent market, feasibility and financial analysis. Our team concludes that the Project will face a significant shortfall that, while substantially less than the developer's estimates, does indicate that the Project as proposed is not feasible at this time because development costs are materially greater than the value of the Project upon completion. The City could generate recurring net new tax revenues from the Project, which may be the foundation for a partial subsidy to close this gap, but that alone may only close some of this shortfall. Specific findings for the feasibility, fiscal and economic analyses are enumerated below:

- $48.9 Million Financial Gap: RSG anticipates a much smaller gap in the Project feasibility, largely resulting from our higher estimate of the supportable investment. Including both the retail and hotel components, project costs exceed value by approximately $48.9 million;
- $61.1 Million Net Fiscal Benefit through 2040: Although there are significant differences in methodology, RSG does project a higher amount of revenue for the project than HR&A. In 2013 dollars, the net new fiscal impact to the City is projected at $61.1 million through 2040; and
- Projected Employment Benefits: RSG estimates that direct construction employment may reach 1,287 jobs. Permanent employment impacts include 1,597 new direct (project) jobs, plus 492 new indirect and induced jobs.

DEVELOPMENT FEASIBILITY ANALYSIS

The development feasibility analysis separately considers the costs of construction versus valuation for the hotel and retail components of the Project. The analysis was prepared jointly by PKF and RSG. PKF primarily estimated costs and valuation of the hotel component, while RSG was responsible for the estimates of the retail, parking and other improvements relating to the Project.

Overall, RSG and PKF estimate that the project will face a deficit of approximately $48.9 million because overall development costs exceed conventional valuation metrics by this amount. In 2013 figures, the total Project costs are approximately $346.8 million inclusive of land and on-site and offsite improvements. By comparison, the total value of the Project is approximately $297.9 million. The feasibility gap is equivalent to 14.1 percent of the construction budget, inclusive of direct costs, indirect costs, developer fees, and financing costs.

A summary of the Project costs are presented below in Table 2 by component. In mirroring HR&A's segregation of costs between the hotel and retail components, we note that all land costs are contained in the retail component instead of split between the two. In this case, the actual feasibility for each component is not accurately presented, so the actual feasibility of the hotel may be lower than what is presented, while the retail feasibility may be equally improved.

Development Feasibility Analysis Conclusions **Table 2**

	Hotel	Retail	Combined
Supportable Investment	$ 27,400,000	$ 270,483,024	$ 297,883,024
Development Cost	$ 27,900,000	$ 318,871,695	$ 346,771,695
Project Surplus/(Feasibility Gap)	$ (500,000)	$ (48,388,671)	$ (48,888,671)
As % of Development Cost	*-1.8%*	*-15.2%*	*-14.1%*

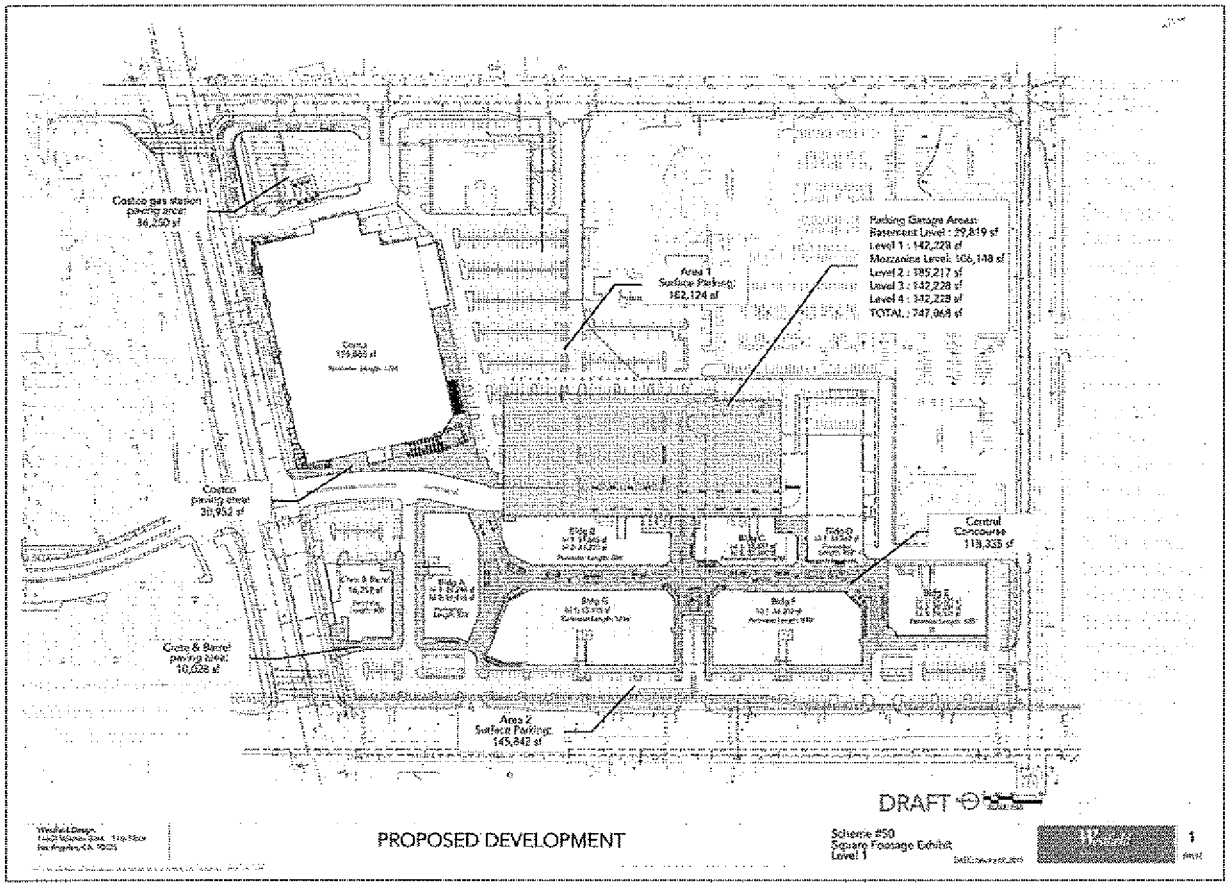
It is RSG's conclusion that the Project as proposed is not presently financially feasible. Our estimates of the development costs are described below, followed by the supportable investment forecast.

DEVELOPMENT COSTS

Proposed Development Program

Westfield has been pursuing development of the site for over 10 years. An earlier effort was abandoned by Westfield in 2008 when the real estate market could not support the uses proposed, after which Westfield retooled the development program, secured Costco as a new anchor for the site, and began work on the current application.

While the Project should be expected to go through refinements as it approaches construction, Westfield provided RSG a January 2013 site plan for purposes of our analysis, as presented below.



As proposed, the Project includes approximately 390,000 gross square feet (approximately 364,000 gross leasable square feet) of retail and an accompanying parking structure and surface parking lot. Costco makes up a significant portion of the retail component for the Project, totaling an additional 155,000 square feet. The remainder of the retail is concentrated along the western portion of the site, forming a pedestrian-oriented outdoor mall. The parking structure is adjacent to the retail component and is expected to provide parking for Costco, the hotel and the remainder of retail. The surface parking is found throughout the site in small perimeter parking lots and in a large concentrated parking lot adjacent to Costco.

The Costco is located on the North perimeter of the Project. Westfield has described the Costco construction type as including materials not typical to Costco, with entry towers, artistic enhancements, and extraordinary engineered retaining walls. The primary structure will be composed of steel construction with metal studs. The exterior will include metal panels, concrete masonry walls and glass panels typical of high-end retail developments. The building will be one story, however it will be designed such that it appears to be a two story building from the adjacent streets and neighborhoods. Because the site slopes downward from East to West, the developer must construct a significantly sized retaining wall forming a level pad for the Costco building. The building will include murals, mosaics and other decorative artwork. The concrete flatwork and pavers outside the entry and in the outdoor dining area will have above-average artistic qualities. Finally, the Costco will be constructed to LEED Silver standards and certification.

A sub-component of the Costco building is the Costco gasoline service station. The Costco gas station has not been described to exhibit any extraordinary design elements. However, due to the high water table, there are some extraordinary costs.

The retail component of the project is located along the western boundary of the site and is clearly visible to Topanga Boulevard motorists. The retail component is described as sophisticated and family friendly. The central pedestrian-oriented concourse will provide the community with a gathering place that is vibrant,

experiential and exciting. The concourse will be adorned with elements such as water and both natural and artificial shade features. Restaurants will have removed European-style patios and the concourse will feature movies and other community events. The Project is designed to complement Westfield's two existing nearby centers, Westfield Promenade, which features more restaurants and a movie theater, and Westfield Topanga regional shopping center, an enclosed mall with several prominent anchor department stores. The hotel component will be located above a portion of the retail component, near the center of the Project site.

The parking structure is five stories and is adjacent to the retail and hotel components. The structure will provide parking to the Costco, retail, and hotel components. The perimeter parking will provide retail consumers with parking that is easily accessible to the retail component. The large parking field adjacent to Costco will support the large clientele patronizing the warehouse store. The parking lots will feature landscaped medians and the parking structure will have decorative facades.

Approach

RSG and PKF reviewed relevant reports and supporting exhibits in the HR&A studies and the Project Environmental Impact Report[4], made numerous inquiries for additional information from the development team to aid in our understanding of the Project and their cost assumptions. From there, the consultant team then prepared our own independent estimate of the Project costs, which entailed refinement of some of the information received from the development team, but largely consisted of computation of construction costs based on RSG and PKF's experience and credible cost services. Once an initial cost estimate was prepared, RSG undertook a series of internal review and refinement with other real estate experts in the firm, and presented a draft of our analysis and findings to the City and the development team for additional feedback and review. Following this review, the consultant team expanded our research and conducted additional interviews and study prior to finalizing our development costs contained in this report.

Marshall Valuation Service

While RSG did reference the RS Means Cost Guide as well, RSG primarily used Marshall Valuation Service to develop replacement costs of the Project improvements. Marshall Valuation Service ("MVS") is a monthly publication by Marshall and Swift/Boeckh, LLC and is regarded as the complete, authoritative guide to construction replacement cost data, employed by appraisers, assessors, underwriters, insurance companies and other entities needing accurate estimates of building values. MVS collects and consolidates updates to their cost guides monthly or quarterly based on input from current subscribers, phone surveys, field surveys, product catalogs, trade associations and publications, government statistics and reports, lending institutions, and building industry and trade representatives. MVS cost estimates are the industry standard because the handbook contains over 300 different building occupancies, often with several varying construction classes and qualities for each building occupancy, and over 30,000 component costs.

The replacement cost of a building includes the total cost of construction required to replace the subject building with a substitute of like or equal utility using current standards of materials and design. The costs included in Marshall Valuation Service include the costs of labor, materials, supervision, contractor's profits and overhead, architects plans and specifications, sales taxes and insurance.

MVS breaks down costs for more construction types than any other cost guide, and then further refines the costs based on building class, quality and materials, to yield an estimate of costs per square foot referred to as the calculator method. The calculator method includes the actual final costs to the owner, including architect and engineer fees, plans, plan check, building permits, and surveying. Also included are interest on construction loans, all material and labor costs, local state and federal taxes, normal site preparation including finish, grading, and excavation for foundation and backfill, utilities from the structure to the lot line, and contractors overhead and profit. The calculator method incorporates average square foot costs for various classes, occupancy types, and qualities of buildings. Refinements are made to the square foot costs based on the type of fire suppression system and the total square footage and perimeter of the building. Finally,

[4] Draft Environmental Impact Report for The Village at Westfield Topanga, February 2011 (State Clearinghouse No. 2007101117)

current cost multipliers and local cost multipliers adjust the published figures to the construction costs for the current month and locale (in this case, the City of Los Angeles).

The calculator costs specifically exclude costs of assembling and buying land, pilings and hillside foundations, costs of land planning, preliminary concept and layout, financing costs, extensive yard improvements, off-site costs, tenant improvements, furnishings and fixtures, marketing costs and general contingency.

In some cases, a more detailed compilation of costs became necessary, so the consultant team employed a second technique in the MVS known as the segregation cost, wherein the cost of the improvements is broken down into the component parts. The segregated cost method begins with the cost per square foot of major building components, such as foundation, frame, wall, floors, etc. The segregated cost method can be utilized to essentially build a structure from the ground up, selecting quantities and qualities that are specific to the project. It should be noted that the segregated cost method excludes the architect fees in addition to the other exclusions noted above under the calculator method.

While the segregation method is largely infeasible due to the extensive time and energy required to account for the quantity, quality, and type of building components that make up a project of this scale. However, the segregated cost method is particularly useful in adding on project components that are excluded from the calculator method costs. For example, the Project requires extensive pilings, which are excluded from the calculator per square foot costs. RSG identified piling material, design and excavation costs and essentially added on the value of these improvements to the total costs. Certain product types are also better estimated under the segregation method, such as the cost of the Costco fuel station.

RSG has used MVS to estimate building and construction costs for over 25 years. The MVS was also utilized by Westfield and HR&A to develop some of their Project construction estimates.

Other Costs Excluded from MVS

As stated earlier, RSG and PKF had to employ additional refinements to the Project costs for items that were either excluded entirely or not adequately refined for the particular construction project by MVS. Project costs that fall into these categories include:

- Furnishings, Fixtures and Equipment;
- Feasibility and Pre-Development Costs associated with the current Project[5];
- Financing and Carry Costs associated with the current Project;
- Additional overhead premiums charged by Westfield and their in-house general contractor not typically included in MVS but considered within reasonable ranges by RSG;
- City fees and municipal contributions/exactions on the Project;
- Tenant improvement allowances and marketing costs;
- Contingencies on the direct and indirect costs of the Project; and
- Land cost, derived by RSG after considerable review of detailed reports provided by the development team.

The consultant team estimated these additional costs based on experience with similar projects, consultation with the development team, interviews of industry professionals and analysis of trade and investment surveys.

[5] Approximately $11.5 million of the developer's predevelopment and feasibility costs associated with the previous development program for the site are not included in RSG's costs for the Project and treated as the developer's operating loss.

Information Referenced

The majority of the proposed Project consists of regional serving retail commercial development and supporting surface and structured parking facilities. RSG developed cost estimates for this component of the Project, taking into consideration the following sources of information:

- Responses to RSG's November 21, 2012 Request for Information provided by Douglas Praw of Goodwin and Proctor on November 30, 2012, Paul Silvern of HR&A on November 30, 2012, market and consumer research dated September 2012, and several email and phone communications with Westfield officials;
- Review of the February 2011 Environmental Impact Report on the Project to ascertain potential mitigation measures that may have an impact on total costs to be borne by the developer;
- Review of the proposed site plan, including annotations of building sizes and perimeters, dated December 19, 2012;
- Analysis of potential tenant build outs for each of the seven retail commercial buildings, taking into account the anticipated leasing program by Westfield broken down into a range of eight different occupancy types and four size categories;
- Independent market research, using credible third party estimates and projections of existing retail market saturation and net demand, trade area analyses within several drive time distances;
- Evaluation of comparable retail developments developed by Westfield (such as the Town Center development in Santa Clarita), Calabasas Commons, and other recent lifestyle projects in the LA/Orange County market;
- Consideration of project building materials as envisioned in the Image Booklet prepared by Westfield and further described in follow up interviews with the Westfield development team; and
- Incorporation of January 2013 cost estimates for direct and indirect construction costs within the City of Los Angeles, consisting of detailed analysis of project components, taking into consideration aspects such as building type, class and quality, story height, size and massing, location, and anticipated building features.

Retail Cost Assumptions

RSG computed costs for the retail uses of the Project, consisting of the following components:

- Costco store and fuel station;
- Retail shell, core and concourse;
- Multistory above-grade parking structure;
- Surface parking area;
- Grading, pilings, site work, landscaping and other onsite improvements;
- Off-site improvements; and
- LEED Silver Certification, contingencies, and other costs.

Details of our assumptions are described below.

Costco Store

For the purpose of this analysis, RSG utilized Marshall Valuation Service cost estimates for Warehouse Food Stores to estimate costs of the Costco component. MVS defines a Warehouse Food Store as a large market of warehouse construction, offering limited perishable products, excluding any built-in coolers or refrigerated storage. RSG used the MVS Warehouse Food Store Class S with Construction Type Good to account for the

steel frame, sandwich panel construction materials. RSG interviewed manufacturers of these so-called butler building materials to independently verify the quality and cost for these materials. The interior of this building type shall have plaster or drywall with partitioned offices and finished ceilings, good lighting and plumbing for frozen food and a snack bar component.

Costco Building
Details & Assumptions — **Table 3**

Building Square Feet	155,085
Average Perimeter	1,774
Stories	1
Base Cost	$72.00
Sprinkler Cost	$2.29
Multipliers	
Stories (Multiplier)	1
Height Per Story (Multiplier)	1
Floor Area/Perimeter (Multiplier)	1
Combined Multipliers	1
Current Cost Multiplier	1.01
Local Multiplier	1.21
Adjusted Base Cost	$90.79
Adjusted Total Cost	$16,580,138

Sources: Westfield, Marshall Valuation Service

The base cost for this construction type is $72.00. A wet sprinkler system was added on to the base cost at $2.29 per square foot, resulting in a total base cost of $74.29. RSG adjusted the base cost to account for the building square footage and perimeter, the current cost of construction, and the local construction index. The final cost per square foot, after adjustments, is $90.79. The base costs were combined with lump sum adjustments of approximately $2,900,000 to account for the shoring and retaining wall expenses, and exterior treatments to the façade to give the building a relatively unique and high quality appearance not found in other discount stores. At 155,085 square feet, the total construction cost is estimated at $16,580,138.

Costco Fuel Station

Because Costco gas stations are often more automated and have smaller buildings than typical gas stations, the MVS service station base costs are not applicable. Instead, a segregated cost methodology is used. The Costco gas station construction valuation is divided amongst eight variables. The various costs that were calculated include the costs of paving, island pump shelter, fiberglass underground tanks, concrete islands, metal guard rails, twin hose gas dispensers, product piping, and pumps. Improvement unit costs are provided by MVS for completely installed units. The costs include design, engineering and contractor's profit and overhead, plus a prorated share of miscellaneous ancillary costs.

Costco Service Station
Details & Assumptions **Table 4**

	Units	Base Cost per Unit
Paving Area Square Feet	36,250	$3.09
Pump Shelter Square Feet	11,250	$63.00
Stories	1	
Fiberglass Underground Tanks	3	$108,000
Concrete Island Square Feet	280	$11.20
Metal Guard Rail Square Feet	150	$29.50
Twin Hose Gas Dispensers	20	$10,756
Product Pumps	20	$2,610
Tank Pumps	3	$2,550
Multipliers		
Stories (Multiplier)	1	1
Height Per Story (Multiplier)	1	1
Floor Area/Perimeter (Multiplier)	1	1
Combined Multipliers	1	1
Current Cost Multiplier	1.01	1.01
Local Multiplier	1.21	1.21
Total Adjusted Cost		$1,793,842

Sources: Westfield, Marshall Valuation Service

RSG utilized average cost estimates for all Costco gas station components. Base costs for average paving, island pump shelter, concrete islands and metal guard rails are provided in per square foot estimates whereas fiberglass underground tanks, twin hose gas dispenser, product piping, and pumps are valued per unit. MVS values average paving at $3.09 per square foot, island pump shelters at $63.00 per square foot, concrete islands at $11.20 per square foot, and metal guard rails at $29.50 per square foot. MVS values fiberglass underground tanks at $108,000 each, twin hose gas dispensers at $10,756 each, product piping at $2,610 each, and pumps at $2,550 each. Overall, the Costco gas station cost estimate is $1,739,842.

Retail Shell

RSG utilized a semi-segregated methodology to value the regional center retail component. According to MVS, regional shopping centers contain a large number of satellite stores in strips with one or more major or junior department or anchor store buildings as anchors. The base costs provided by MVS include support and service areas, and other facilities, exclusive of anchor buildings, which are priced separately. Because the retail component does not have any traditional anchors, such as Macy's, JC Penney, or Nordstrom, anchor buildings are neither included in this valuation nor discussed in this report.

The Project's retail buildings were each evaluated separately. MVS further divides retail construction into shell construction and core improvements. The methodology varies slightly from other MVS calculator method valuations. For regional shopping centers, MVS provides shell building construction base costs and interior finishes. The interior finishes are based on an average mix of retail tenant finishes commensurate with the occupancy type and quality level.

Regional Shopping Center Shell Building Details & Assumptions Table 5

Retail Building	A	B	C	D	E	F	G
Total Building Square Feet	53,666	64,985	51,217	31,462	87,993	46,332	55,115
Total Stories	2	2	2	1	3	1	1
Average Perimeter	733	866	608	852	685	940	1,046
Construction Class	C	C	A-B	A-B	A-B	C	C
Construction Quality	Good	Good	Good	Good	Good	Good	Good
Base Cost	$44.35	$44.35	$67.01	$67.01	$67.01	$44.35	$44.35
Adjusted Base Cost	$51.94	$51.11	$74.48	$75.13	$73.68	$47.85	$47.85
Total Development Cost	$2,787,548	$3,321,400	$3,814,849	$2,363,794	$6,483,538	$2,217,145	$2,637,442

Multipliers	
Stories (Multiplier)	1.00
Height Per Story (Multiplier)	1.00
Floor Area/Perimeter (Multiplier)	1.00
Combined Multipliers	1.00
Current Cost Multiplier	1.01
Local Multiplier	1.21

Sources: Westfield, Marshall Valuation Service

Retail building square footages and heights were based on the Westfield Site Plan (dated November 27, 2012) and Westfield Square Footage Exhibit (dated January 2, 2013). Retail building shells A, B, F and G were classified as Good Quality Class C Regional Shopping Center Shell Buildings; and retail building shells C, D and E were classified as Good Quality Class A-B Regional Shopping Center Shell Buildings. The buildings are evaluated differently to account for the increased construction standards placed on the buildings which are located beneath the hotel tower. Buildings D, F and G are one story; buildings A, B, and C are two stories; and building E is three stories.

Retail building shells A, B, F, and G consist of single and two story retail buildings without extraordinary structural additions and are valued at a base cost of $44.35. The total square footage for building shells A, B, F and G are 53,666 square feet, 64,985 square feet, 46,332 square feet, and 55,115 square feet, respectively. Building shells A and B, being two story buildings, include elevator allowances at $1.61 and $1.33 per square foot, respectively. Building shells A and B also feature a wet sprinkler system at $3.01 per square foot, whereas building shells F and G wet sprinkler systems are $2.77 per square foot, adjusted based on building size. After height, floor area, perimeter, current cost, and local cost indexes are applied, the total costs of building shells A, B, F, and G are $2,787,548 or $52 per square foot, $3,321,400 or $51 per square foot, $2,217,145 or $48 per square foot, and $2,637,442 or $48 per square foot, respectively.

In contrast, building shells C, D and E are evaluated slightly differently to account for the additional structural improvements required to support the seven stories of hotel above the retail building. These three building shells are valued at a base cost of $67.01. All three buildings feature a wet sprinkler system at $3.01 per square foot and buildings C and E feature elevators at $1.68 and $1.16 per square foot, respectively. When height, floor area, perimeter, current cost and local cost multipliers are applied, the total costs of building shells C, D and E are $3,814,849 or $74 per square foot, $2,363,794 or $75 per square foot, and $6,483,538 or $74 per square foot, respectively.

Retail Core

In addition to the retail shell construction, tenant improvements or core build-out will enhance the spaces to meet current retail standards. Similar to the shell valuation, the Project retail buildings are evaluated separately, due to variations in square footage and applicable building area adjustments to base costs. All retail core build-outs were valued based on the average base costs for Good Quality Regional Center Average Tenant Composition and buildout.

Retail building cores were valued based on the distribution of space by retailer classification. Retailer tenant composition and buildout classifications included Retail, Discount, Food (Sales), Restaurant, Commercial,

and Personal Services. Each classification has a different tenant buildout cost range, and each building has a unique composition of different tenant classifications. Retail classification is a catch-all for general retail and special occupancies. Discount includes large drug, furniture, hardware, and garden stores. The Food (Sales) classification includes convenience and specialty foods, delicatessen, bakery and florists. Restaurant classification includes both quick and full service restaurant. The Commercial category includes office, financial, medical and post offices. Finally, the Personal Services category includes laundry facilities, barbers, beauty shops, health clubs and repair shops. The classification square footage distribution by building was provided by Westfield in January 2013.

Regional Shopping Center Tenant Composition **Table 6**

	Retail	Discount	Food (Sales)	Restaurant	Commercial	Personal Services
Retail Building A	58%	24%	0%	18%	0%	0%
Retail Building B	17%	32%	0%	18%	0%	34%
Retail Building C	51%	29%	0%	20%	0%	0%
Retail Building D	100%	0%	0%	0%	0%	0%
Retail Building E	35%	0%	0%	10%	0%	55%
Retail Building F	0%	56%	0%	31%	13%	0%
Retail Building G	0%	56%	0%	31%	9%	4%

Sources: Westfield Note: Percentages are rounded.

Based on the tenant distribution and average base costs for Good regional center tenant improvements, RSG developed per square foot core construction costs by building. Retail Building A core improvement costs are $5,735,132 or $107 per square foot after making adjustments for current cost and local indexes. Retail Building B core improvement costs are $7,758,015 or $119 per square foot after making adjustments for current cost and local indexes. Retail Building C core improvement costs are $5,585,450 or $109 per square foot after making adjustments for current cost and local indexes. Retail Building D core improvement costs are $2,614,580 or $83 per square foot after making adjustments for current cost and local indexes. Retail Building E core improvement costs are $10,595,599 or $120 per square foot after making adjustments for current cost and local indexes. Retail Building F core improvement costs are $5,488,934 or $118 per square foot after making adjustments for current cost and local indexes. Retail Building G core improvement costs are $6,620,179 or $120 per square foot after making adjustments for current cost and local indexes.

Regional Shopping Center Tenant Improvements Details & Assumptions **Table 7**

	Total Building Square Feet	Total Stories	Construction Quality	Base Cost	Total Adjusted Cost
Retail Building A	53,666	2	Good	$87.45	$5,735,132
Retail Building B	64,985	2	Good	$97.69	$7,758,015
Retail Building C	51,217	2	Good	$89.24	$5,585,450
Retail Building D	31,462	1	Good	$68.00	$2,614,580
Retail Building E	87,993	3	Good	$98.53	$10,595,599
Retail Building F	46,332	1	Good	$96.94	$5,488,934
Retail Building G	55,115	1	Good	$98.29	$6,620,179

Multipliers	
Stories (Multiplier)	1.00
Height Per Story (Multiplier)	1.00
Floor Area/Perimeter (Multiplier)	1.00
Combined Multipliers	1.00
Current Cost Multiplier	1.01
Local Multiplier	1.21

Sources: Westfield, Marshall Valuation Service

Parking Structure and Surface Parking

Parking structures are structures with no exterior walls or partial walls and are designed for above grade storage of automobiles. According to MVS, the costs of a parking structure are based on the number of stories where there is always one more parking level (rooftop) than there are stories. The parking structure is evaluated as a Class B Average Quality Parking (Parcade) Structure.

The proposed parking structure is five stories and approximately 150,000 square feet per story. According to MVS, a Class B Average Quality Parking Structure features partial walls, with brick, block, concrete or plain finish, and an unfinished interior with a small office and service area. Class B Average Quality Parking Structures also feature low level lighting, drains and minimum restroom facilities for employees. The base cost of the Parking Structure is $47.87. After making adjustments for a wet sprinkler system, and current and local cost indexes, the Parking Structure construction cost is $49,418,529 or $66 per square foot.

MVS values surface parking based on a cost per space. The base costs per space include asphalt paving, concrete aprons, striping, some lighting, landscaping and drainage. The primary surface parking on the site includes small surface parking surrounding the site and a large parking lot to provide Costco customers with convenient access to parking. RSG utilized MVS Average Surface Parking Lot base costs to evaluate the surface parking component, resulting in a base cost of $1,300 per parking space. The base cost was then reduced by the maximum reduction of 30 percent as a total parking space adjustment. According to MVS, costs should be reduced by 5 percent for every one hundred parking spaces in excess of 200 parking spaces to a maximum reduction of 30 percent. After adjusting for size, current cost, and local cost multipliers, the resulting surface parking costs are $900,645 or $1,156 per space.

Parking Details & Assumptions **Table 8**

	Parking Structure	Surface Parking Lot
Square Feet	747,868	327,966
Stories	5	-
Construction Class	B	-
Construction Quality	Average	Average
Base Cost per Space	-	$1,300
Base Cost per Square Foot	$47.87	-
Multipliers		
Stories (Multiplier)		1.00
Height Per Story (Multiplier)		1.00
Floor Area/Perimeter (Multiplier)		1.00
Combined Multipliers		1.00
Current Cost Multiplier		1.01
Local Multiplier		1.21
Total Adjusted Cost	$49,418,529	$900,645

Sources: Westfield, Marshall Valuation Service

Retail Concourse and Other Onsite Improvements

The retail plaza area consists of about 159,315 square feet of open-air retail concourses that connect the retail to the Costco and existing Crate & Barrel store onsite. Based on a review of the project renderings and interviews with the development team, RSG assumed a Very Good quality construction consisting of best pavers, varied patterns and elevations, with high-cost seating and planters and high quality luminaries, water features, and other decorative amenities. Including landscaping, this cost should be approximately $6.8 million ($43 per square foot) after local and current cost adjustments.

Surface parking lot landscaping is added onto the cost using a blended cost per square foot based on MVS's Average and High Cost Landscaping for retail shopping centers. RSG estimated that 15 percent of the surface parking lot is landscaping. The Average Cost Landscaping is based on an average number of 3- to 5-gallon shrubs, small to large trees, closer spacing of small ground cover plants, automatic irrigation and a seeded lawn. High Cost Landscaping includes high visual content of 5- to 15-gallon shrubs, a greater proportion of large trees, closely spaced ground-cover with top dressing, automatic irrigation, seeded lawn and sodded turf areas. The blended cost results in a base cost of $5.82 per square foot. The total landscaping cost for the surface parking lot is $362,010 or about $7 per square foot.

In addition to vertical construction and parking, several categories of construction costs have been included to account for concourse hardscape, landscaping, and site preparation. Also, extraordinary costs that MVS does not include in base costs have been added to the cost of construction. Extraordinary costs, as identified by Westfield and valued according to MVS, include piling costs and associated excavation, domestic water, fire water, gas, telephone, electricity, and sewer loops, sewer manholes, grease interceptors, cisterns, storm drainage and manholes, sand filter chambers, asphalt demolition, building demolition, site preparation, bulk excavation, soil exportation, and retaining wall construction (collectively, the "on-site improvements").

RSG made many of these estimates based on construction experience and without any useful figures provided by Westfield. Ultimately, estimating the costs of extraordinary development requirements could take weeks or months of coordination between building officials, consultants, architects, and builders. RSG utilized the MVS to estimate the various on-site improvements, resulting in an additional construction cost allowance of approximately $15.8 million.

Off-Site Improvement Costs

According to the developer, off-site improvements were estimated to be approximately $8,319,230 as of November 2012. Many of the off-site improvements have yet to be designed and engineered, as well as the scope of the contributions expected from the developer for some of the projects identified in the mitigation measures of the EIR. RSG is aware from the City and developer that the parties have been meeting to review and refine the potential projects, which may certainly affect the final cost to the developer. Therefore, the developer's off-site cost estimates are subject to change and cannot be accurately predicted until the scope of the improvements and contributions are finalized. After reviewing the scope of the projects identified in the EIR, RSG determined that these estimates appear to be reasonable based on the information known about the scope of the projects needed at this time.

LEED Construction

Westfield plans to develop the Project to LEED Silver standards. LEED stands for Leadership in Energy and Environmental Design and was established by the United States Green Building Council as the most comprehensive green construction rating system. LEED is now a nationally recognized benchmark for green design. LEED Silver is the second of four tiers in the LEED certification system. According to MVS, the additional cost of building green is estimated to be between 0 and 7 percent for commercial buildings. RSG increased the hard costs associated with Costco, retail, parking structure, surface parking, and on- and off-site improvements by 3 percent to account for the costs of achieving a LEED Silver certification. The total added construction cost to achieve LEED Silver certification is estimated at $3,645,430.

Similar to the LEED Silver adjustment, RSG included a construction contingency to account for unforeseen construction costs or events, like labor strikes and anticipated labor and material increases.

Additional Costs of Retail Construction

RSG included several additional costs including pre-development, feasibility, financing, Westfield and general contractor overhead, City fees and contributions, tenant allowances and marketing costs, and an indirect contingency. These costs are included in addition to the hard costs because they are integral to the development and success of a building.

- Pre-Development and feasibility costs were provided by HR&A and Westfield. According to Westfield, pre-development costs include estimating, entitlement consulting and legal, aerials, blueprints, environmental studies, traffic engineering, traffic consultant fees, site planning, entitlements, civil engineer fees, parking consultant fees, geotechnical engineer fees, modeling and renderings, code consultants, surveyors, and structural engineers;
- According to Westfield, many of the pre-development costs are a result of a previous plan to develop the Project site. Prior to the recent financial crisis (2007-2008), Westfield had developed plans, sought entitlements and conducted environmental studies to develop the Project site. RSG is excluding the costs of entitlement for the Project prior to January 1, 2010, when the conceptual design, site planning, and environmental studies for the previously planned project were abandoned. On approximately January 1, 2010, Westfield revised the Project to a smaller plan, incorporated Costco, and began pursuing entitlements for the current Project. According to Westfield, the pre-development costs exclude legal costs to fight any potential litigation;
- Feasibility costs include costing, estimating, pro forma development, and cash flow projections, as this report outlines, in order to evaluate the project feasibility. The Predevelopment and Feasibility costs are packaged in the fiscal analysis and total approximately $17.9 million;
- RSG utilized the construction financing terms that Westfield provided, including 5.86 percent interest rate over a 15 month period;
- Normally, MVS estimates that contractor overhead and profit is approximately 10.3 percent of labor, material, and subcontracts, excluding plans, engineering and supervision on an average retail project. The Project budget reflects a 20 percent factor for corporate overhead and contractor overhead, which RSG deemed to be high but reasonable given the scale and scope of the project. Accordingly, RSG added a 10 percent premium for these additional Westfield and general contractor overhead, based on market research and industry experience;
- City fees and contributions, and tenant allowances were derived from Westfield and HR&A's Feasibility Study. These figures are not out of line with what RSG has experienced on similar projects and consistent with negotiated City exactions for the Project; and
- Furthermore, RSG has included a direct contingency of 10 percent and an indirect contingency of 6 percent to account for unforeseen pre-development costs, market shifts in financing terms, or other unexpected costs.

Retail Cost Summary

In total, RSG estimates that the total construction cost for the non-hotel components, excluding land costs, the cost of offsite improvements that have yet to be ascertained, and some minor marketing costs, would equal approximately **$275.9 million**, or 14 percent more than the $241.9 million estimated by Westfield.

In order to account for land costs, RSG incorporated the $42,932,380 in year 2013. RSG utilized data furnished by Westfield to derive the land costs, which include the actual land acquisition less a 2003 land sale, and plus a 2003 partnership buyout, and tenant buyouts in 2000, 2003, 2006, and 2008, and legal and closing costs. The land costs exclude pre-development costs, interest and carrying costs, which are included elsewhere in the analysis.

Total development costs are summarized below:

Development Costs **Table 9**

RETAIL CONSTRUCTION COSTS	Units		$/ unit		Cost	%
Costco	155,085	gsf	$ 121	/ gsf	$ 18,781,957	6.8%
Costco Store	155,085	gsf	$ 110	/ gsf	$ 16,988,115	
Costco Gas	20	pump	$ 89,692	/ pump	$ 1,793,842	
Retail	390,770	gsf	$ 191	/ gsf	$ 74,832,359	27.1%
Shell	390,770	gsf	$ 60	/ gsf	$ 23,625,717	
Core	390,770	gsf	$ 114	/ gsf	$ 44,397,888	
Concourse	159,315	gsf	$ 43	/ gsf	$ 6,808,754	
Parking Garage	1,717	stall	$ 28,782	/ stall	$ 49,418,529	17.9%
Surface Parking	779	stall	$ 1,156	/ stall	$ 900,645	0.3%
On-Site Improvements					$ 15,782,796	5.7%
Off-Site Improvements					$ 8,319,230	3.0%
LEED Silver Adjustment	3.0%	of bldgs			$ 3,645,430	1.3%
Direct Contingency	10%	directs			$ 16,803,552	6.1%
Subtotal - Direct Costs					**$ 188,484,498**	**68.3%**
Additional Costs						
Pre-Development/Feas/Carry	9%	directs			$ 17,888,593	6.5%
Financing Costs	5.86%	rate	15	mos 40%	$ 10,872,857	3.9%
Westfield/GC Overhead Prem	10%	directs			$ 18,848,450	6.8%
City Fees & Contributions					$ 3,537,628	1.3%
FF&E					$ -	0.0%
Tenant Allowances & Marketing Costs					$ 31,357,017	11.4%
Indirect Contingency	6%				$ 4,950,273	1.8%
Subtotal - Additional Costs					$ 87,454,817	**31.7%**
TOTAL RETAIL CONSTRUCTION COSTS					**$ 275,939,315**	**100.0%**
HOTEL	158	room	$ 176,582	/ room	**$ 27,900,000**	
TOTAL ALL CONSTRUCTION COSTS					**$ 303,839,315**	
Land Value	30.67	acre	$ 1,399,817	/ acre	$ 42,932,380	
TOTAL PROJECT, INCLUDING LAND COST					**$ 346,771,695**	

Hotel Cost Assumptions

PKF completed an analysis of the potential market demand for and the financial feasibility of the proposed 158-room Hyatt House Hotel, to be developed as part of the Project. The conclusions presented herein are based on PKF's knowledge of the competitive lodging market as of February 2013. In determining the financial feasibility of the proposed project, PKF determined the cost to construct the hotel using a standard cost estimating service, and including all development, start up costs, which PKF then compared that to similar newly developed Southern California hotels as a check of reasonableness. PKF then estimated the market value of the proposed property based on analysis of the income and expenses generated by projecting financial operating results for the facility. The value of the property was estimated using both a direct capitalization technique and a discounted cash flow analysis. PKF then performed a reconciliation of the value indications under these approaches to conclude to a final estimate of value. Ultimately a comparison of the estimated construction costs as compared to PKF's concluded value provided the ultimate determination of the proposed project's financial feasibility.

Hotel Overview

It should be noted that while PKF requested specific information relative to the project, much of the requested information was not available given that the hotel portion of the development is in the preliminary planning stages. Therefore, PKF's assumptions as to size, facilities, and positioning are based upon documents obtained from Hyatt Corporation and PKF's understanding of the Hyatt House extended-stay hotel brand. To recap, the proposed subject development is anticipated to contain the following (based on Hyatt brand standards):

- Approximately 107,000 square feet of buildable area[6];
- 158 Guestrooms – including studio, one-bedroom and two-bedroom suites;
- Suites include equipped kitchens, spacious living room with flat panel TVs;
- H BAR – morning breakfast bar and evening cocktail bar;
- Guest Market & Loaner Box;
- Game Room; and
- Meeting and Training Facilities.

According to Hyatt Corporation, the Hyatt House brand of hotels is intended to cater primarily to mid- to upper-income transient and interim individual guests looking for spacious accommodations and the comforts and conveniences of a space that allows them to live like they were in a home. In addition, Hyatt House Hotels also serve small groups and business and social gatherings representing a wide range of industries and organizations

Development Cost Approach

PKF utilized a cost approach to estimate the value of the Hotel notwithstanding that the development is subject to a ground lease. Due to this fact, PKF did not include a land value for this analysis. This approach is largely applicable to the valuation of special use properties, where elements of the facility are unique to the operator and market data is limited; properties which are proposed or under construction, where the estimated costs can be compared to the ultimate value of the property as a measure of feasibility; and aged properties, in which the value of improvements may be nominal. The Hotel is a proposed facility in which the costs have not been expensed and the proposed improvements contribute significant value to the property.

The general procedure for the cost approach is outlined below:

[6] To determine the anticipated buildable area of the proposed subject hotel we relied on information from the Hyatt Corporation (undated), as well as from preliminary building plans prepared by LawKingdon Architecture for the Hyatt House Hotel that were prepared on October 9, 2012. These sources calculated the buildable area to be 678.63 and 678.79 square feet per guestroom, respectively.

- Estimate the value of the Hotel site through an analysis of comparable land sales on a price per square foot basis (if applicable);
- Estimate development costs for the new improvements, including all direct and indirect costs associated with the building; and
- Add the estimated cost of personal property (furniture, fixtures, and equipment) and capital assets that may be included in the total property value, including working capital, and pre-opening marketing expenses.

A discussion of the Hotel's estimated construction cost using this approach is presented in the following text.

Building Improvements

In the system utilized by MVS, the proposed Hotel development would be classified as an excellent condition, Class A limited-service hotel structure. The fully indexed replacement cost for this type of improvement is about $194.58 per square foot. Based on this, the resulting value of the improvements is approximately $20,863,000 based on a total gross building area of 107,223 square feet, which includes all interior spaces, and ancillary hotel facilities. This value of the improvements also takes into account a sprinkler system throughout the project, as well as the Hotel's construction type and mechanical systems. Additionally, this value accounts for location and current costs.

Personal Property

Personal property, more commonly known as furniture, fixtures, and equipment (FF&E), is a critical component in the operation of a hotel, and is commonly sold with the building. FF&E includes the hotel's guest rooms, and public area furnishings, as well as kitchen equipment and service/maintenance equipment, and other machinery. Using prevailing industry averages, PKF has estimated the cost of the subject's FF&E at $24,500 per key, or $3,871,000. While greater than the typical industry standard for a limited-service hotel, this estimate accounts for the anticipated higher-end positioning of the proposed subject, and the in-suite kitchen facilities of the guestrooms.

Indirect Costs

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

- ***Legal, title, and escrow fees*** represents the costs in each of these areas to complete the development of the property. Based on information provided by several leading hotel companies, these costs are estimated to approximate $790,000 for the subject, or approximately $5,000 per available unit.
- ***Real estate taxes*** represent the amount of property tax associated with the land and improvements of the project. PKF utilized an estimate 1.1 percent tax rate of the total direct costs, resulting in a tax allocation of approximately $272,000.
- ***Contingency fees*** represent the costs associated with having a reserve in the case of unexpected cost overruns, delays, or damages to the on-going construction process. Based on information provided to us by local developers, the appropriate cost for this item would be approximately 3.0 percent of total hard costs, or approximately $742,000.
- ***Pre-opening and working capital*** costs include pre-opening marketing, training and administrative expenditures as well as a working capital reserve to maintain adequate cash flow until the hotel achieves a break-even point. Also included in this category are the costs of operating supplies to properly outfit the hotel. These costs are estimated at $3,500 per room, or $553,000.

- ***Financing costs*** represent the costs associated with obtaining construction and permanent financing for the subject. This cost is primarily composed of "points" associated with these loans. Construction period interest is already included in Marshall Valuation Services' stabilized cost estimates. Based on PKF's discussions with representatives of several major financial institutions, PKF has been informed that the typical fee for a loan for a property such as the subject would be 53.0 percent of the loan commitment. Based on a total development cost (including land, FF&E, and indirect costs) of $27,090,000, PKF has assumed a take-out loan of 60 percent, with a financing cost of approximately $813,000 rounded.

Replacement Cost Summary

The following table presents a summary of the estimated replacement cost for the Hotel's building and contents, as presented in the cost approach.

Construction Cost Summary **Table 10**

		Costs
Direct Costs	$	24,734,203
Building Improvements		*20,863,203*
Personal Property (FF&E)		*3,871,000*
Indirect Costs	$	2,357,000
Legal, Title, and Escrow Fees		*790,000*
Real Estate Taxes		*272,000*
Contingency Fees		*742,000*
Pre-Opening Expenses/Working Capital		*553,000*
Financing Costs	$	813,000
Total	**$**	**27,904,203**
Cost Per Key	**$**	**176,609**

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

Therefore based on the preceding analysis PKF has estimated the Hotel's total construction costs to be approximately $27.9 million, or approximately $177,000 per key. It is important to note that this cost estimate does not include any land value as the hotel will be leased and also does not include any entrepreneurial profit specifically for the hotel construction as it is assumed to be built into the general development fees associated with the larger overall project.

Comparable Hotel Costs

As a test of reasonableness, PKF also researched hotels considered to be comparable to the proposed subject that were constructed in Southern California over the past several years. While PKF cannot disclose the identities of the comparable projects, they include high-quality nationally branded hotels in the extended-stay and select-service segments, representing brands such as Cambria Suites, Hyatt Place, and Residence Inn. On a per room basis these four hotels developed between 2007 and 2012 ranged from approximately $139,000 to $251,000, with a per room average of approximately $191,000.

Construction Cost Comparables	Table 11
	Costs
Hotel A	$ 165,035
Hotel B	$ 250,871
Hotel C	$ 139,144
Hotel D	$ 208,000
Average Hotel Construction Cost	**$ 190,763**

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

While none of these representative projects can be considered identical to the proposed Hotel development, they represent a realistic range of costs on a per key basis and further heighten PKF's construction cost determination made by using the cost approach. Therefore, based on PKF's understanding of the proposed Hyatt House Hotel to be developed as part of the Project, PKF has estimated the total construction costs to be approximately $27,900,000.

Please note that building on air rights above a shopping center may raise costs but PKF has no basis to reflect that here.

SUPPORTABLE INVESTMENT

The supportable investment for the Project is the difference between the development costs and the market value of the Project, typically measured in one of three different approaches for income property such as a commercial development:

- Direct Capitalization Method – wherein the net operating income, expressed in current dollars, at the period of stabilization, is divided by a factor that expresses the relative risk of that income stream (a capitalization rate). This is commonly used for properties that have a relatively stable income stream, such as retail, office and industrial properties.
- Discounted Cash Flows Method – is a combination of the net present value of the net operating income over a holding period (typically at least ten years) and the reversion value of the property, net of sales costs and expressed in present dollars. The majority of the value is derived from the discounting of the net operating income, which is how this method earns this name. Although computed similarly to the direct capitalization method, the reversion value is determined by dividing the net operating income in the year following the holding period by a more conservative cap rate as determined by the market. Sales costs are typically deducted from this value, which is then discounted at a discount rate. This method is commonly used in hotel valuation, as well as projects with more volatile cash flows.
- Internal Rate of Return Method - is the comparison of the net present value based on the expected rate of return (also known as the "hurdle rate") compared to the actual IRR of the project. While less common, this method can be used to validate the expected return on investment by a developer.

In this Report, RSG considered all three methods for the retail component, but ultimately selected the Direct Capitalization method in determining the value. PKF applied the Discounted Cash Flow approach solely in valuation of the hotel component given the common use of this method for lodging. Together, RSG and PKF determined that the value of the Project would be approximately $297.9 million, with details of our analysis and approach described below. Compared to the estimated $346.8 million of development costs discussed earlier, the Project faces a shortfall of approximately $48.9 million.

While all but $500,000 of this shortfall is attributed to the retail component, it should be noted again that the land costs for the hotel are included in HR&A's Report (and for comparison purposes, in this Report), so the breakdown of the feasibility between the components is unfavorably slanted towards the retail uses.

Retail

RSG employed three different methods in evaluating the feasibility of the retail component, and then compared each to the cost of development to determine the development gap. Details on each approach are provided below.

Assumptions

Key to the computation of valuation of any income-generating real estate are the assumptions used to apply to the property's revenue stream, consisting of two types of capitalization rates (going-in and residual) and the overall return on investment. These factors are contingent on the expectations of the investment market, and account for risk, location and use among other considerations.

Capitalization Rates

For both the determination of going-in (initial) and residual (at reversion) capitalization rates, RSG collected data from several investor surveys provided from independent third parties of the Los Angeles retail commercial market, including CBRE, RERC (Real Estate Research Corporation), PwC, and Integra Realty Resources. As a hybrid of a lifestyle center with a large membership store anchor, the Project does not fall into a specific category tracked by any of these data sources, so RSG selected the closest representative project categories – either regional mall or power centers – given the fact the Project would similarly be

oriented to attract tenants that cater to a regional consumer base. We suggest that returns on lifestyle centers, as the fastest growing segment of retail development, should be superior to the returns on the comparative categories available.

After consideration of these factors, RSG concluded that the retail capitalization rates would be approximately 6.5 percent initially, and 7.1 percent at reversion.

In addition to net operating income from the retail component, the Project includes revenue from two ground leases: the hotel ground lease and another from Costco. Both ground leases generate income to the developer that needs to be considered in the valuation of the retail component, but are typically yield a lower capitalization rate than an improved retail property. RSG determined these capitalization rates would be at least 50 basis points less than the retail cap rates after interviews with local appraisers of commercial land, or 6.0 percent initially and 6.6 percent at reversion.

Return on Investment

Based on an evaluation of the surveys described earlier, yield expectations of the project typically are 185 basis points above the going-in cap rate, or in this case 8.35 percent.

Operating Revenue Forecast

In order to evaluate the retail feasibility, RSG looked at the Project net operating income, reversion value and a total return on cost. Many assumptions come into play when projecting cash flow and developing a valuation forecast, including construction costs derived from the feasibility study, absorption rates, gross income projections, operating expenses, capitalization rates and inflation rates.

- It should be noted that although this construction schedule is consistent with the Westfield and HR&A feasibility study, there are inconsistencies with other economic impact analyses. Where available, RSG utilized construction schedules that matched Westfield and HR&A despite the inconsistencies.
- In order to calculate the effective gross income, RSG combined industry research and expertise with Westfield and HR&A assumptions. The Costco ground lease results in income of $1,200,000 per year. Costco's occupancy begins in 2014 with two months of occupancy and resulting lease revenues. The Hotel ground lease, by contrast, includes a tiered increase from $200,000 in year one, $235,000 in year two, $275,000 beginning in year three, and a rent escalator by 3 percent every five years thereafter. The tiered increases are intended to account for occupancy rate growth and inflation over time.
- To estimate the gross revenue from the retail component of the project, RSG utilized the total leasable square footage reduced by five percent to account for vacancy. Throughout the Westfield and HR&A documentation, various square footages have been reported, including gross building area, and several variations of gross leasable area. In order to calculate gross revenue, RSG utilized 370,400 square feet less a five percent vacancy rate, which results in 351,880 occupied square feet.
- The occupied square footage increases from zero percent in 2013, during construction, to 8.7 percent in 2014, and 80.9 percent in 2015. Finally, the Project reaches stabilization in 2016 with 95 percent occupancy. To estimate gross rent revenues, RSG utilized $3.65 per square foot, inflated by 3 percent per year. The lease rate was based on market research and Westfield's actual preleasing activity provided to RSG in January 2013.
- Other Project revenues result from vending, events, media and advertising, storage, parking, valet and miscellaneous sources. Other revenues were based on figures reported by Westfield and HR&A and are inflated at 3 percent per year.
- As a means of expense recovery, RSG estimated that Westfield's common area maintenance is $0.50 per square foot, charged back to retailers. Again, this information was based on Westfield's actual preleasing activity. The common area maintenance is shown as an income source and zeroed out in the Project expense section. Common area maintenance is inflated at the same rate as Project lease rates.

- Primary Project expenses include common area maintenance, marketing and management. Common area maintenance is zeroed out. Marketing expenses are estimated at two percent of the retail component gross rent revenues. Management fees are estimated at five percent of the retail component gross rent revenues.

Methodology

RSG's analysis for each of the three methods of valuation is described below, presented in order of prominence in our consideration. Each approach is evaluated in comparison to the cost of the retail development of $318.9 million.

Direct Capitalization Method

RSG used the income of the retail component at 2017 as the basis for the direct capitalization of the property. This year was selected because all of the project components would be operational by this date and the hotel ground lease reaches its first plateau of $275,000 annually. Applying the going-in cap rates of 6.5 percent on the retail and 6.0 percent on the ground leases, RSG computed a total value of $270.5 million for the retail component, which is $48.4 million less than development cost.

Because this method is most commonly used in the type of real estate being valued, RSG selected this method in our analysis. Still, for comparison and validating purposes, we looked at two other methods below which yielded results relatively close to this $48.4 million shortfall.

RETAIL SUMMARY		RSG/PKF
Land Cost	$	42,932,380
Retail Construction		275,939,315
Total Project	**$**	**318,871,695**
Supportable Investment		
Direct Cap /1		270,483,024
Feasibility Gap (Rounded)		***(48,400,000)***
DCF Valuation (2025) /2		270,023,940
Feasibility Gap (Rounded)		***(48,800,000)***
IRR /3		6.46%
Feasibility Gap (Rounded)		***(43,600,000)***

1/ RSG's Value is based on survey of going-in cap rates, and NOI at 2013 rents.
2/ RSG assumed 8.35% discount rate.
3/ RSG estimates a target IRR should be 8.35% for this type of project.

Discounted Cash Flow Method

Using the residual capitalization rates of 7.1 percent on the retail net operating income and 6.6 percent on the ground leases, RSG determined the discounted cash flow value of the retail property assuming the property is held through 2025, consistent with the assumptions of HR&A. We note that Westfield has not indicated a desire to dispose of the property at this date, and that this holding period is on the shorter side of typical commercial real estate which may undervalue the property under this method.

Sales costs were assumed to be 2 percent of gross proceeds, yielding a total net reversion value of $353.9 million at 2025. This value was then discounted back to 2013 figures using an 8.35 discount rate. The resulting value from this approach was $270.0 million, nearly identical to the direct capitalization method.

Internal Rate of Return Method

The internal rate of return (IRR) method compares the internal rate of return on the projected cash flows (outflows for construction, inflows from lease and net operating income) to the expected hurdle rate of 8.35 percent. The IRR of the projected cash flows is estimated at 6.49 percent, or nearly 186 basis points below the market hurdle rate of 8.35 percent. To determine this shortfall, RSG discounted the projected cash flows (inflows and outflows) at the 8.35 percent hurdle rate, and yielded a negative net present value of $43.6 million, which represents the shortfall under this method.

Projected Retail Cash Flows

Based on the forgoing assumptions, the projected annual cash flows for the retail operations, including the ground lease revenues, are presented in the table below through the year 2025:

Feasibility and Cash Flow Analysis - Retail and Center Only

The Village at Topanga
SEC Victory Blvd Topanga Canyon Blvd, Los Angeles CA 91303

RETAIL CASH FLOW AND VALUATION FORECAST

	2013 Present Value	- 1 - 2013	- 2 - 2014	- 3 - 2015	- 4 - 2016	- 5 - 2017	- 6 - 2018	- 7 - 2019	- 8 - 2020	- 9 - 2021	- 10 - 2022	- 11 - 2023	- 12 - 2024	- 13 - 2025
Construction Cost	272,038,310	10,391,536	260,646,774											
Construction % by Year /1		3.93%	98.27%											
Inflation @ 3.5% /2	18,406,916	508,776	18,177,809											
Inflated Contamination Cost	253,426,969	10,891,313	261,824,667											
Land Investment	42,032,380	42,032,380	-											
Total Investment, Excl Hotel	295,058,960	53,533,693	261,824,667											
Cost Escalation/Inflation	618,671,695													
Gross Income														
Center Ground Lease Rev	1,200,000		200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Hotel Ground Lease	275,000			206,000	265,000	275,000	275,000	275,000	275,000	275,000	275,000	283,250	283,250	283,250
Retail Gross Revenue														
Leasable SF /3	370,400													
Occupancy Rate /4	95.0%	0.0%	5.7%	83.0%	89.0%	92.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%
Occupied SF	351,880	-	20,226	259,054	331,880	351,880	351,880	351,880	351,880	351,880	351,880	351,880	351,880	351,880
Average Gross Rent /5	15,012,344	-	1,497,403	14,041,854	17,348,726	17,997,181	18,668,146	19,355,239	19,928,896	20,709,673	20,712,502	21,334,278	21,974,317	22,633,547
Other Revenue /6														
Vending/Events	200,000		35,363	218,045	225,163	231,920	238,818	245,979	253,354	260,955	268,783	276,847	285,152	293,707
PM Media/Advertising	750,000		132,613	817,645	844,132	869,456	895,539	922,405	950,078	978,580	1,007,937	1,038,176	1,069,321	1,101,402
Storage	233,059		35,363	218,045	225,163	231,955	238,810	245,975	253,354	260,955	268,783	276,847	285,152	293,707
Parking, Valet, Misc	630,000		68,408	549,364	562,754	579,637	597,026	614,937	633,385	652,387	671,958	692,117	712,880	734,267
Total Other Revenue	1,813,059	-	271,746	1,803,059	1,857,053	1,912,802	1,970,193	2,029,296	2,090,171	2,152,876	2,217,462	2,283,988	2,352,505	2,423,081
Expense Recoveries														
CAM @ $0.60 psf /7	2,222,400		208,134	1,984,897	2,078,264	2,447,552	2,520,978	2,596,608	2,674,506	2,754,742	2,837,384	2,922,505	3,010,180	3,100,486
Miscellaneous	Nominal													
Effective Gross Income	**20,759,744**	**-**	**2,184,275**	**19,209,491**	**20,780,082**	**23,427,485**	**24,084,310**	**24,761,139**	**25,428,573**	**26,217,230**	**26,967,747**	**27,740,760**	**28,537,003**	**29,357,115**
Expenses														
CAM	2,222,400		392,592	2,426,478	2,501,331	2,576,971	2,653,662	2,735,273	2,815,270	2,899,728	2,986,720	3,076,321	3,168,611	3,263,669
Marketing @ 2.0%	308,247		28,645	266,337	346,935	357,843	368,053	378,165	388,478	402,132	414,253	426,680	439,486	452,671
Management @ 3.0%	770,617		71,670	667,335	690,357	920,157	947,760	976,195	1,005,481	1,035,646	1,066,714	1,098,715	1,131,677	
Total Expenses	**3,301,264**		**497,776**	**3,432,406**	**3,715,802**	**3,827,070**	**3,941,382**	**4,060,138**	**4,181,941**	**4,307,401**	**4,436,523**	**4,569,722**	**4,706,813**	**4,848,018**
NET OPERATING INCOME	**17,458,480**	**-**	**1,686,499**	**15,577,084**	**17,064,481**	**19,600,415**	**20,162,428**	**20,721,001**	**21,306,631**	**21,909,830**	**22,531,124**	**23,171,038**	**23,830,190**	**24,509,096**
NOI w/o Leases	*16,983,480*	*-*	*1,496,493*	*14,977,084*	*17,864,481*	*18,400,415*	*18,952,428*	*19,521,001*	*20,106,631*	*20,709,830*	*21,331,124*	*21,971,058*	*22,630,190*	*23,309,096*
Net Terminal Value /8														
Center Lease @ 6.00% Cap	20,000,000	-	-	-	-	-	-	-	-	-	-	-	-	19,181,818
Hotel Lease @ 6.50% Cap	4,553,333	-	-	-	-	-	-	-	-	-	-	-	-	4,291,897
Village Retail @ 7.10% Cap	245,699,641	-	-	-	-	-	-	-	-	-	-	-	-	338,149,036
Ellens Cost of Sale @ 2.5%		-	-	-	-	-	-	-	-	-	-	-	-	(5,763,823)
Total	**270,483,024**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**353,858,930**
Unleveraged Return on Costs														
Total Project Costs		(53,533,693)	(261,824,667)	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flow		-	1,686,499	15,577,084	19,064,481	19,600,415	20,162,428	20,721,001	21,306,631	21,909,830	22,531,124	23,171,038	23,830,190	378,365,695
Total Return on Cost		**(53,533,693)**	**(260,138,168)**	**15,577,084**	**19,064,481**	**19,600,415**	**20,162,428**	**20,721,001**	**21,306,631**	**21,909,830**	**22,531,124**	**23,171,038**	**23,830,190**	**378,365,695**
Total Return on Cost (IRR)	**5.46%**	**DCF Valuation @ 5.35% /9**		**$270,023,940**										

1/ Based on HR&A assumptions in Cash Flow worksheet
2/ Rider Construction Index, January 2013
3/ As reported by Westfield on 11/5/2013 Leasing worksheet. According to Westfield email on January 3, 2013, gross building area is 350,770 square feet
4/ Based on absorption estimates from HR&A.
5/ Estimated by RSG based on actual preleasing activity, reflects monthly rent rate of $3.65 psf, with 3.0% annual increases used by HR&A.
6/ Per Westfield estimates, includes 3.5% inflation.
7/ Based on analysis of actual leasing commitments from Westfield. CAM is averaging $.60 per month per sf and assumed to increase at same rate as rent.
8/ Terminal Value in 2017 uses 6.00% cap rate on grocer/anchor property and 8.50% cap rate on improvements, based on consultations with appraisers and RSG analysis of investment ranges for senior commercial space in Los Angeles.
9/ Assumes discount rate of 5.35%, based on going-in cap rate plus 185 basis points, consistent with RSG surveys of investment on larger-scale retail projects in LA market.

Conclusions of Retail Valuation and Feasibility

Because both the IRR and discounted cash flow methods incorporate more assumptions in their determination of value, they are typically less reliable for projects with relatively stable income streams. The retail component is being developed in a single phase and has a typical absorption and lease revenue forecast that does not cause RSG to favor these methods over the direct capitalization method. Therefore, RSG has selected the direct capitalization method for use in the determination of the supportable investment and concluded that the supportable investment for the retail component is approximately $270.5 million, or $48.4 million less than development costs.

This $48.4 million shortfall is a significant variance from the developer's estimates as delineated by HR&A for several reasons, including the fact that land costs in the developer's budget include the operating losses from the previously abandoned project, differences in opinion on the valuation of the project, particularly the capitalization and discount rate used in determining project value, and variances on specific development costs that RSG could not support based on the information provided. In that RSG's analysis generally lines up across three different methodologies for estimating project value and feasibility, we are comfortable in standing by our estimates of this project feasibility gap.

Hotel

In order to determine the financial feasibility of the proposed Hotel, PKF used an income capitalization approach to value. In the income capitalization approach, the estimated market value of the property was based on analysis of the income and expenses generated by projecting operating financial results of the facility. The value of the property was estimated using both a direct capitalization technique and a discounted cash flow analysis. PKF then performed a reconciliation of the value indications under these approaches to conclude to a final estimate of value. However, principal reliance was placed on the second approach, which is commonly referred to as discounted cash flow analysis or yield capitalization. Based on discussions with persons familiar with the purchase and sale of hotels such as the subject Hotel, this approach is considered most appropriate for a hotel of this class.

Methodology

Direct Capitalization Method

Under the direct capitalization approach, the projected earnings stream attainable by the property is first established. This earnings stream is then converted into a value estimate by dividing the income estimate by an appropriate income capitalization rate. The capitalization rate represents the relationship between income and value observed in the market and is derived through an analysis of comparable sales as well as other analyses.

Direct capitalization is market-oriented; an appraiser analyzes market evidence and values the property by considering the assumptions of typical investors. Direct capitalization does not explicitly differentiate between the return on and return of capital because investor assumptions are not specified. It is assumed, however, that the selected capitalization rate will satisfy a typical investor and that the prospects for future monetary benefits, over and above the amount originally invested, are sufficiently attractive.

The earnings stream most commonly used as the basis for this method of valuation is the net operating income (NOI) from operations after the deduction of real estate taxes, insurance, and reserves for capital improvements, but before the deduction of interest, depreciation, amortization and taxes on income. The income expectancy used for valuation is frequently the anticipated income for a typical or stabilized year of operation stated in current value dollars. The performance of the property in the stabilized year reflects the normal level or operation of the hotel at its stabilized occupancy, unaffected by temporary non-recurring expenses such as extraordinary start-up marketing, administrative, or operational costs, which can occur in the initial years of the hotel or upon repositioning of the facility.

Estimated Performance of the Subject Hotel

The first step in determining the anticipated performance of the proposed hotel is to complete a market analysis of the competitive hotel supply. 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 in the analysis of the subject hotel. The following is a discussion of the proposed subject's competitive hotel market.

Market Analysis

Competitive Supply

In order to identify the competitive market for the proposed hotel, PKF analyzed the overall Los Angeles County lodging market, focusing on Warner Center and the surrounding communities, and have selected seven properties that PKF anticipate will offer competition to the subject. The following table sets forth the proposed subject's competitive supply.

Historical Competitive Supply **Table 14**

	# of Units
Hyatt House Hotel Westfield Topanga	**158**
1. Warner Center Marriott	474
2. Hilton Woodland Hills	318
3. Hilton Garden Inn Calabasas	142
4. Courtyard Sherman Oaks	213
5. Courtyard Woodland Hills*	122
6. Hampton Inn Sherman Oaks	96
7. Holiday Inn Express Woodland Hills	86
Total Competitive Market	**1,451**

[1] This property is in the final stages of converting from a Holiday Inn Hotel to a Marriott Courtyard.

[2] Total excludes the subject property

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

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 competitive set between 2007 and 2012 are presented in the following table.

Historical Market Performance of the Competitive Supply **Table 15**

Year	Annual Supply	% Change	Occupied Room	% Change	Market Occupancy	Average Daily Rate	% Change	REVPAR	% Change
2007	462,455	N/A	350,449	N/A	75.80%	$150.94	N/A	114.38	N/A
2008	482,895	4.40%	333,977	-4.70%	69.20%	$151.70	0.50%	104.92	-8.30%
2009	500,050	3.60%	305,978	-8.40%	61.20%	$134.37	-11.40%	82.22	-21.60%
2010	528,885	5.80%	341,971	11.80%	64.70%	$128.90	-4.10%	83.35	1.40%
2011	528,885	0.00%	365,344	6.80%	69.10%	$129.08	0.10%	89.17	7.00%
2012	494,940	-6.40%	367,697	0.60%	74.30%	$134.65	4.30%	100.03	12.20%
CAAG	0.034		1.00%			-3.80%		-6.00%	

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

Over the six-year historical period, market occupancies have fluctuated as new supply was introduced into the market during declining economic conditions. The annual supply of available hotel rooms has increased at a rate of 3.4 percent since 2007 as the 96-room Hampton Inn Sherman Oaks opened in June 2008 and the 86-room Holiday Inn Express Woodland Hills opened in November 2009. Supply has temporarily decreased as the former Holiday Inn Woodland Hills closed in March 2012 to undergo a renovation and repositioning to a Courtyard Hotel that is anticipated to reopen at the end of February. Given the additions to supply during the recession it is not surprising that market occupancies dipped to a period low of 61.2 percent at the height of the recession in 2009. More recently as the economy has recovered and the additions to supply were absorbed into the marketplace, occupancy levels increased in both 2010 and 2011. With the removal of the Holiday Inn last year, the aggregate market occupancy increased to 74.3 percent. Over the historical period, the average daily rate has declined at an annual average rate of 3.8 percent as pricing power was eroded during the recession and the new supply was limited-service and at a lower rate. In 2012 the market posted a 4.3 percent increase in average daily rate as hoteliers were able to raise rates in a stronger business climate. These trends are anticipated to continue as the higher rated Courtyard Woodland Hills reopens following its approximately $6 million renovation and economic conditions continue to improve.

Projected Market Performance of the Competitive Supply

Based on the foregoing, the following table summarizes PKF's estimates of future supply, demand, occupancy, average daily rate, and RevPAR from 2013 to 2020 for the competitive market.

Projected Market Performance of the Competitive Supply **Table 16**

Year	Annual Supply	% Change	Occupied Room	% Change	Market Occupancy	Average Daily Rate	% Change	REVPAR	% Change
2013	522,315	5.50%	386,500	5.50%	74%	$142	5.20%	105.08	5.20%
2014	529,615	1.40%	391,900	1.40%	74%	$149	4.90%	110.26	4.90%
2015	544,151	2.70%	402,700	2.80%	74%	$155	4.00%	114.71	4.00%
2016	587,285	7.90%	433,100	7.50%	74%	$159	2.60%	117.26	2.20%
2017	587,285	0.00%	434,600	0.30%	74%	$164	3.10%	121.36	3.50%
2018	587,285	0.00%	434,600	0.00%	74%	$169	3.00%	125.06	3.00%
2019	587,285	0.00%	434,600	0.00%	74%	$174	3.00%	128.76	3.00%
2020	587,285	0.00%	434,600	0.00%	74%	$179	2.90%	132.46	2.90%
CAAG	1.70%		1.70%			3.40%		3.40%	

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

Based on PKF's analysis, supply is estimated to increase 5.5 percent in 2013 as the Courtyard Woodland Hills is reintroduced to the market and an additional 1.4 percent as the remaining rooms from the late February opening are annualized into the market next year. Supply is projected to increase by 2.7 percent and further by 7.9 percent in 2016 as the Project Hotel opens October 2015. Over the projection period, growth in the number of occupied rooms is projected to equal supply growth as the new additions are rapidly absorbed into the market given its current and projected performance. As a result, the aggregate market occupancy is projected to be 74 percent in 2013 and remain at that level for the duration of the projection period. PKF is of the opinion that a stabilized occupancy of 74 percent is appropriate after review of the historical performance and characteristics of the competitive market. This stabilized occupancy is in line with the average occupancy of the competitive market over the last six years and the current market dynamics.

Average daily rates in 2013 are projected to be above levels achieved last year due to the increased level of demand and the reopening of the higher rate Courtyard Hotel following the completion of its approximately $6 million renovation and rebranding. PKF estimated a 5.2 percent increase in average daily rate in 2013 over 2012, resulting in an average daily room rate equal to $142.00. It is expected that average daily rate will grow at a compound average annual rate of 3.4 percent between 2013 and 2020, with increases greater than the general rate of inflation projected over the next three years.

Estimated Performance of the Project Hotel

An analytical tool referred to as a penetration rate or fair share index frequently measures the relative market position of a property. If a property were operating at the same occupancy level as the market, it would capture demand at the same ratio that it comprised of the supply. This relationship would be expressed as a penetration rate of 100 percent. A property with material competitive advantages would be expected to penetrate its market at a rate in excess of 100 percent, whereas a hotel with competitive disadvantages would be expected to achieve penetration levels lower than 100 percent.

It should be noted that the actual penetration of each market segment by the Hotel may deviate from fair market share for the following reasons:

- The competitive advantages or disadvantages of the Hotel versus the competition taking into consideration such factors as location, room rate structure, chain affiliation, quality of management, marketing efforts, and image;
- The characteristics, composition, and needs of each market segment;
- The constraint on demand captured due to capacity constraints during certain periods of the week or times of the year; and
- Management decisions concerning target markets.

Overall Market Penetration and Mix

PKF estimates that the Hotel's overall penetration rate will be 80 percent in 2015, its first year of operation, which reflects a partial year beginning in October. In 2016, its first full year of operation, PKF estimates an increase to 93 percent. PKF estimates that the Hotel will stabilize at 100 percent penetration of the market beginning in 2017, equating to a stabilized occupancy of 74 percent.

Projected Average Daily Rate and Yield for the Hotel

PKF's derivation of the average daily rate for the Hotel in a stabilized year of operation is based primarily on proposed facilities and positioning of the Hotel and the recent historical performance of Warner Center and greater Los Angeles markets. PKF analyzed how the competitive properties compared to the Hotel in terms of quality of facility, location, and mix of demand.

Overall, the Hotel's primary strengths are considered to be the following upon opening:

- The Hotel will be the newest high-quality hotel in the San Fernando Valley;
- The Hotel will be positioned as an extended-stay hotel and feature oversized studio, one-bedroom and two-bedroom suites, many with full kitchens; and
- The Hotel will be developed as an integral part of The Village at Westfield Topanga, which is anticipated to be a new, upscale outdoor shopping and dining destination.

PKF has estimated that the Hotel will achieve an average daily rate of $153.00 in 2015. Average daily rate for the subject property is expected to increase 3.0 percent in 2016 and for the remainder of PKF's projections. This equates to a stabilized average daily room rate of $144.00 stated in 2013 dollars, positioning the subject hotel's average daily rate proximate to the market average. PKF finds this estimate to be reasonable given the Hotel's location, proposed facilities and amenities, market orientation, and size. The following table outlines PKF's estimates of average daily rate and the resulting revenue yield for the Hotel. It should be noted that figures are rounded to the nearest dollar amounts.

Projected Market Performance of the Subject Hotel **Table 17**

Year	Annual Supply	% Change	Occupied Room	% Change	Occupancy %	Average Daily Rate	% Change	REVPAR	% Change
2015	14,536	N/A	8,600	N/A	59%	$153	N/A	90.52	N/A
2016	57,670	296.70%	39,700	361.60%	69%	$158	3.00%	108.77	20.20%
2017	57,670	0.00%	42,500	7.10%	74%	$162	3.00%	119.39	9.80%
2018	57,670	0.00%	42,800	0.70%	74%	$167	3.00%	123.94	3.80%
2019	57,670	0.00%	42,800	0.00%	74%	$172	3.00%	127.65	3.00%
2020	57,670	0.00%	42,800	0.00%	74%	$177	3.00%	131.36	2.90%
CAAG	31.70%		37.80%			3.00%		7.70%	

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

Statement of Estimated Annual Operating Results

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 assignment. In conformity with this system of account classifications, only direct operating expenses are charged to the operating departments of the Hotel. 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 arrive 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. Comparable data from five high-quality extended-stay hotels in the Southern California and from PKF Consulting's *Trends in the Hotel Industry* survey (referred to as Comparables "A", "B", "C", "D", and "E").

Operating Statistics on Comparable Hotels

PKF's composite is made up of five hotels considered comparable with the subject, due to their location, size, market orientation, and hotel affiliation. For reasons of confidentiality, PKF cannot disclose the identity of the comparable hotels. All five properties are nationally branded, extended-stay properties of between 122 and 178 rooms with an average of 159 rooms, and are located in Southern California. The following pages present the operating results of the comparable hotels.

Operating Results of Comparable Hotels **Table 18**

	Hotel A			Hotel B			Hotel C		
	Ratio	Per Room	P.O.R	Ratio	Per Room	P.O.R	Ratio	Per Room	P.O.R
Revenue	100.00%	$44,498	$139.08	100.00%	$34,096	$124.33	100.00%	$37,794	$138.59
Rooms	98.00%	$43,590	$136.24	97.60%	$33,268	$121.31	93.90%	$35,501	$130.19
Other Operated Departments	2.00%	$908	$2.84	2.40%	$828	$3.02	6.10%	$2,293	$8.41
Departmental Expenses	19.90%	$8,843	$27.64	22.70%	$7,748	$28.25	20.40%	$7,719	$28.31
Rooms	18.90%	$8,225	$25.71	22.60%	$7,522	$27.43	20.90%	$7,426	$27.23
Other Operated Departments	68.00%	$618	$1.93	27.30%	$226	$0.82	12.80%	$293	$1.07
Departmental Profit	80.10%	$35,655	$111.44	77.30%	$26,348	$96.08	79.60%	$30,075	$110.29
Undistributed Expenses	25.20%	$11,201	$35.01	23.00%	$7,836	$28.57	21.40%	$8,092	$29.67
Administrative & General	9.50%	$4,234	$13.23	8.70%	$2,973	$10.84	8.10%	$3,076	$11.28
Marketing	8.40%	$3,742	$11.69	6.80%	$2,318	$8.45	6.20%	$2,344	$8.59
Property Operation and Maintenance	4.20%	$1,864	$5.83	3.70%	$1,272	$4.64	4.00%	$1,516	$5.56
Utility Costs	3.10%	$1,362	$4.26	3.70%	$1,272	$4.64	3.10%	$1,157	$4.24
Gross Operating Profit	55.00%	$24,454	$76.43	54.30%	$18,512	$67.50	58.20%	$21,983	$80.61
Base Management Fee	2.20%	$988	$3.09	7.00%	$2,387	$8.70	6.60%	$2,504	$9.18
Fixed Expenses	7.00%	$3,094	$9.67	6.20%	$2,099	$7.65	6.50%	$2,462	$9.03
Property Taxes	6.00%	$2,656	$8.30	4.40%	$1,485	$5.42	4.00%	$1,522	$5.58
Insurance	1.00%	$438	$1.37	1.80%	$614	$2.24	2.50%	$941	$3.45
Net Operating Income Before Reserve	45.80%	$20,372	$63.67	41.10%	$14,026	$51.15	45.00%	$17,017	$62.40
FF&E Reserve	4.00%	$1,780	$5.56	4.00%	$1,364	$4.97	4.00%	$1,512	$5.54
Net Operating Income After Reserve	41.80%	$18,592	$58.11	37.10%	$12,663	$46.17	41.00%	$15,505	$56.86

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

Operating Results of Comparable Hotels **Table 19**

	Hotel D			Hotel E			Weighted Average		
	Ratio	Per Room	P.O.R	Ratio	Per Room	P.O.R	Ratio	Per Room	P.O.R
Revenue	100.00%	$50,382	$167.56	100.00%	$46,426	$149.65	100.00%	$42,719	$144.81
Rooms	94.10%	$47,386	$157.59	97.60%	$45,299	$146.02	96.00%	$41,028	$139.08
Other Operated Departments	5.90%	$2,997	$9.97	2.40%	$1,127	$3.63	4.00%	$1,690	$5.73
Departmental Expenses	16.50%	$8,328	$27.70	18.60%	$8,650	$27.88	19.30%	$8,247	$27.96
Rooms	16.90%	$8,028	$26.70	18.30%	$8,308	$26.78	19.30%	$7,904	$26.79
Other Operated Departments	10.00%	$300	$1	30.30%	$342	$1.10	20.30%	$343	$1.16
Departmental Profit	83.50%	$42,054	$139.86	81.40%	$37,776	$121.77	80.70%	$34,472	$116.86
Undistributed Expenses	18.60%	$9,396	$31.25	20.00%	$9,288	$29.94	21.20%	$9,074	$30.76
Administrative & General	5.90%	$2,948	$9.80	5.90%	$2,758	$8.89	7.40%	$3,145	$10.66
Marketing	6.60%	$3,304	$10.99	6.90%	$3,223	$10.39	6.90%	$2,953	$10.01
Property Operation and Maintenance	3.40%	$1,736	$5.77	3.30%	$1,511	$4.87	3.70%	$1,570	$5.32
Utility Costs	2.80%	$1,408	$4.68	3.90%	$1,795	$5.79	3.30%	$1,406	$4.77
Gross Operating Profit	64.80%	$32,658	$108.61	61.40%	$28,488	$91.83	59.50%	$25,397	$86.09
Base Management Fee	7.00%	$3,527	$11.73	7.00%	$3,250	$10.48	6.20%	$2,631	$8.92
Fixed Expenses	6.90%	$3,486	$11.59	4.90%	$2,273	$7.33	6.20%	$2,667	$9.04
Property Taxes	5.80%	$2,908	$9.67	2.70%	$1,251	$4.03	4.50%	$1,923	$6.52
Insurance	1.10%	$578	$1.92	2.20%	$1,022	$3.29	1.70%	$744	$2.52
Net Operating Income Before Reserve	50.90%	$25,645	$85.29	49.50%	$22,966	$74.03	47.00%	$20,099	$68.13
FF&E Reserve	4.00%	$2,015	$6.70	4.00%	$1,857	$5.99	4.00%	$1,709	$5.79
Net Operating Income After Reserve	46.90%	$23,630	$78.59	45.50%	$21,109	$68.04	43.00%	$18,390	$62.34

Sources: **PKF Consulting** and Marshall Valuation Services (January 2013)

Stabilized Year Estimate

As indicated previously, we have estimated the performance of the Hotel for a stabilized year of operation. This estimate is primarily based on the historical operating results of the Hotel coupled with our review of the performance of other comparable hotels. The support for our stabilized year estimate is detailed in the following paragraphs, and is stated in calendar year 2013 dollars.

Departmental Revenues and Expenses

In the *Uniform System of Accounts for Hotels*, revenues to the facility are categorized by the department from which they are derived. In the case of the Hotel, these include income from rooms, food and beverage, telephone, other operated departments, and rentals and other income. In the *Uniform System of Accounts for Hotels*, 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.

Direct or departmental revenues and expenses, which typically vary with occupancy, are generally analyzed on a per occupied room (POR) or ratio basis, while undistributed expenses, which are more fixed in nature, are typically analyzed on a per available room (PAR) basis.

Room Revenue and Expense

Room revenue is based on the number of occupied rooms multiplied by the ADR for each respective year as presented in this report. We have estimated that the stabilized occupancy rate of the subject would be 74.0 percent, with an ADR of $144 (expressed in 2013 dollars). The following table presents the calculation of the representative year room revenue, as well as operating years one through ten.

158 rooms x 365 days x 74% occupancy x $144.00/day = $6,145,000

Estimated Rooms Revenue **Table 20**

Year	Average Daily Rate	Annual Occupancy	Rooms Revenue
2015	$153	58.00%	$1,279,000
2016	$158	67.00%	$6,105,000
2017	$162	74.00%	$6,914,000
2018	$167	74.00%	$7,128,000
2019	$172	74.00%	$7,341,000
2020	$177	74.00%	$7,554,000
2021	$183	74.00%	$7,810,000
2022	$188	74.00%	$8,024,000
2023	$194	74.00%	$8,280,000
2024	$200	74.00%	$8,536,000

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

Rooms expense consists of salaries and wages, employee benefits, commissions, contract cleaning, guest transportation, laundry and dry cleaning, linen, operating supplies, reservations costs, uniforms, and other items related to the room division. The composite operating results for the comparable hotels ranged on a POR basis from $25.71 POR to $27.43 POR with a weighted average of $26.79. Based on our analysis of the comparable properties, we estimate that for a stabilized year of operations, rooms department expense for the Hotel will be $27.00 per occupied room or 18.8 percent of total rooms revenue. This is within the range of the comparables on a per occupied room and ratio to total rooms revenue basis.

Rooms Expense **Table 21**

Comparables	Per Occupied Room	Ratio to Rms Revenue
A	$25.71	18.90%
B	$27.43	22.60%
C	$27.23	20.90%
D	$26.70	16.90%
E	$26.78	18.30%
Weighted Average	$26.79	19.30%
Subject Stabilized Year	$27.00	18.80%

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

Other Operated Departments Revenue and Expense

Other Operated Department Revenue at the Hotel property pertains primarily to departmental revenues generated from miscellaneous revenues from such items as in-room pay-per-view movies, valet laundry service, and telecommunications. This line item also includes revenues from rentals and other income. From this analysis, we have derived an Other Operated Departments Revenue figure of $3.00 per room on a stabilized basis. As can be seen in the table below, this figure is in the range of the comparable hotels, but at the lower end as the subject will offer complimentary parking to its guests.

Other Operated Departments Revenue **Table 22**

Comparables	Per Occupied Room
A	$2.84
B	$3.02
C	$8.41
D	$9.97
E	$3.63
Weighted Average	$5.73
Subject Stabilized Year	$3.00

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

Other Operated Department Expense for the comparable hotels ranged from 10.0 percent to 68.0 percent, with a weighted average of 20.3 percent. Taking into account the nature of other operated departments of the Hotel, we have estimated Other Operated Department Expenses to be 40.0 percent of departmental revenues for a stabilized year of operation, which is within range of comparables and on par with current industry trends.

Other Operated Departments Expenses	Table 23
Comparables	Ratio to O.O.D. Rev.
A	68.00%
B	27.30%
C	12.80%
D	10.00%
E	30.30%
Weighted Average	20.30%
Subject Stabilized Year	40.00%

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

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

This category includes the salary and wages of the general manager and office staff; cash overages and shortages; credit card commissions; bad debt expense; security; data processing costs; accounting payroll expense; and professional fees. Administrative and general expenses at the comparable hotels range from $2,758 to $4,234 PAR with a weighted average of $3,145 PAR. For a representative year of operation, we have estimated an administrative and general expense of $2,900 PAR for the Hotel in a representative year. This is within the range of the comparables on a per available room and ratio to total revenue basis.

Administrative and General Expenses		Table 24
Comparables	Per Available Room	Ratio to Total Rev.
A	$4,234	9.50%
B	$2,973	8.70%
C	$3,076	8.10%
D	$2,948	5.90%
E	$2,758	5.90%
Weighted Average	$3,145	7.40%
Subject Stabilized Year	$2,900	7.30%

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

Marketing Expense

This expense includes the cost of advertising, printing of brochures, salary associated with sales and marketing personnel, franchise fees, and other costs associated with an ongoing sales and promotion program. Marketing expenses for the comparable hotels ranged from $2,318 to $3,742 PAR. For a representative year of operation, we have estimated marketing expenses at the Hotel to be $2,600 PAR of total revenue in a representative year. This is within the range of the comparables on a per available room and ratio to total revenue basis. It should also be noted that the subject will be managed by Hyatt, and

therefore not subject to a franchise fee unlike some of the comparables. Instead, as noted further herein, Hyatt typically charges a greater than average management fee.

Marketing **Table 25**

Comparables	Per Available Room	Ratio to Total Rev.
A	$3,742	8.40%
B	$2,318	6.80%
C	$2,344	6.20%
D	$3,304	6.60%
E	$3,223	6.90%
Weighted Average	$2,953	6.90%
Subject Stabilized Year	$2,600	6.60%

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

Property Operations and Maintenance Expense

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 hotels indicated property operations and maintenance expenses ranging from $1,272 to $1,864 PAR with a weighted average of $1,570 PAR. For a representative year of operation, we have estimated property operations and maintenance expenditures for the Hotel at $1,500 PAR in a representative year, within the range of the comparables.

Property Operation and Maintenance **Table 26**

Comparables	Per Available Room	Ratio to Total Rev.
A	$1,864	4.20%
B	$1,272	3.70%
C	$1,516	4.00%
D	$1,736	3.40%
E	$1,511	3.30%
Weighted Average	$1,570	3.70%
Subject Stabilized Year	$1,500	3.80%

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

Energy Expense

Energy expenses are generally particular to the location, climate, and type of hotel structure. Utility expense includes electricity, gas, water and sewer charges. These are property and utility district specific. Utility costs at the comparables ranged from $1,157 PAR to $1,795 PAR, with an average of $1,406 PAR. For a representative year of operation, we have estimated utility costs for the Hotel of $1,400 PAR in a representative year, which is within the range of the comparables on a per available room and ratio to total revenue basis.

Utility Costs **Table 27**

Comparables	Per Available Room	Ratio to Total Rev.
A	$1,362	3.10%
B	$1,272	3.70%
C	$1,157	3.10%
D	$1,408	2.80%
E	$1,795	3.90%
Weighted Average	$1,406	3.30%
Subject Stabilized Year	$1,400	3.50%

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

Management Fee and Fixed Charges

- Management Fees: A management fee is an expense item representing the value of management services. It is a variable operating expense normally expressed as a percentage of total revenues. We have utilized a base management fee of 7.0 percent throughout the projection period, which represents typical industry rates for corporate managed hotels.

Base Management Fee **Table 28**

Comparables	Ratio to Total Rev.
A	2.20%
B	7.00%
C	6.60%
D	7.00%
E	7.00%
Weighted Average	6.20%
Subject Stabilized Year	7.00%

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

- Property Taxes: The Hotel is in the real estate taxing jurisdiction of the Los Angeles County Assessor's Office. In California, Proposition 13 limits property taxes to one percent of the assessed value as of the 1975/76 fiscal year, plus city, special district, and county bonds. Assessed values are further limited to a two percent increase per year, except upon sale or major alterations of the property.

  We have applied a base tax rate for the subject property of 1.1 percent, or approximately $345,000 in a representative year of operation based upon the prospective market value of the Hotel. This figure has been inflated at two percent per year in accordance with the Jarvis-Gann Amendment.

- Insurance: Included in this category are insurance premiums relating to general and building and contents insurance. Based on the analysis of comparables, we have estimated the Hotel's insurance expense at $750 per available room or $119,000 in a representative year of operation, which is within the range of the comparable properties.

Insurance	Table 29
Comparables	Per Available Room
A	$438
B	$614
C	$941
D	$578
E	$1,022
Weighted Average	$744
Subject Stabilized Year	$750

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

- Ground Rent: We have assumed that the air rights on which the subject hotel would be located would be leased to Hyatt Hotels, the management company of the hotel. Per the preliminary terms identified, the anticipated rent structure is as follows.

Ground Rent	Table 30
Year	Annual Cost
2015	$200,000
2016	$235,000
2017	$275,000
2018	$275,000
2019	$275,000
2020	$275,000
2021	$275,000
2022	$283,250
2023	$283,250
2024	$283,250

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

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. For a new hotel, reserves are often lower in the first few years, because very little capital improvements will be necessary. We have increased the reserves gradually over the first three full years of the projection period to build up reserves as the building ages. We have projected reserve for replacement of two percent for the first year of operation, three percent for the second year of operation, and four percent for the third year and thereafter.

Stabilized Year Operating Results

Presented on the following page is an estimate of the Hotel's stabilized year operating results expressed in current value 2013 dollars. This estimate is based on the foregoing analysis. For this twelve-month period, revenues are projected to total approximately $6,273,000. Gross operating profit (GOP), which does not include management fees, property taxes, direct assessments, insurance, or reserves for replacement, totals approximately $3,743,000, or 59.7 percent of total revenue, which is similar to the five comparables that had an average GOP of 59.5 percent. Operating income for the subject in the stabilized year, after the deduction

of a management fee, property taxes, insurance, and a reserve for capital replacement, totals $2,395,000 or 38.2 percent, of total revenue.

Representative Year of Operations **Table 31**

Number of Units:	158
Number of Annual Rooms Available:	57,670
Number of Rooms Occupied:	42,676
Annual Occupancy:	74.00%
Average Daily Rate*:	$144.00
Revenue Per Available Room*:	$106.56

	Amount*	Ratio	Per Room*	P.O.R.*
Revenue	$6,273,000	100.00%	$39,703	$146.99
Rooms	$6,145,000	98.00%	$38,892	$143.99
Other Operated Departments	$128,000	2.00%	$810	$3.00
Departmental Expenses	$1,203,000	19.20%	$7,614	$28.19
Rooms	$1,152,000	18.70%	$7,291	$26.99
Other Operated Departments	$51,000	39.80%	$323	$1.20
Departmental Profit	$5,070,000	80.80%	$32,089	$118.80
Undistributed Expenses	$1,327,000	21.20%	$8,399	$31.09
Administrative & General	$458,000	7.30%	$2,899	$10.73
Marketing	$411,000	6.60%	$2,601	$9.63
Property Operation and Maintenance	$237,000	3.80%	$1,500	$5.55
Utility Costs	$221,000	3.50%	$1,399	$5.18
Gross Operating Profit	$3,743,000	59.70%	$23,690	$87.71
Base Management Fee	$439,000	7.00%	$2,778	$10.29
Fixed Expenses	$658,000	10.50%	$4,165	$15.42
Property Taxes	$346,000	5.50%	$2,190	$8.11
Insurance	$119,000	1.90%	$750	$2.79
Ground Rent	$193,000	3.10%	$1,222	$4.52
Net Operating Income Before Reserve	$2,646,000	42.20%	$16,747	$62.00
FF&E Reserve	$251,000	4.00%	$1,589	$5.88
Net Operating Income After Reserve	$2,395,000	38.20%	$15,158	$56.12

* Stated in 2013 dollars.

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

Estimated Annual Operating Results for the Holding Period

The previous analysis provided for the income and expenses incurred in the operation of the Hotel in the base year of operation. In the following analysis, we provide estimated income and expenses for the Hotel during each year of the holding period anticipated by a typical investor. The estimate of the performance for the Hotel in the base year is used as a basis for our analysis, adjusted to reflect the effects of inflation, business development, and variations in occupancy.

- Holding Period: For our analysis we have used a holding period of roughly ten years, representing the period from opening in October 1, 2015 through December 31, 2024.
- 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 the inflation rates experienced in recent years.

  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 will vary from the actual operating results, and the variations may be material. Our assumption of an annual 3.0 percent inflation factor portrays an expected long-term trend in price movements over the projection period rather than a point in time.
- Operating Revenues and Expenses during the Holding Period: Operating revenues and expenses for the Hotel are projected using a computer model developed by PKF Consulting especially for use in hotel appraisal analysis. The estimated operating revenues and expenses are based on the same assumptions used to develop our stabilized year projection. Each item, however, is adjusted to reflect the varying impact of the fixed and variable component of each, i.e., the proportion of each that is affected by variations in occupancy. In addition, each item is adjusted for inflation.

Estimated Annual Operating Results during the Holding Period

The estimated annual operating results for the proposed subject beginning October 1, 2015 through December 31, 2024, are presented on the following pages.

Projected Operating Results Table 32

	2015	2017	2018	2019
Number of Units:	40	158	158	158
Number of Annual Rooms Available:	14,418	57,670	57,670	57,670
Number of Rooms Occupied:	8,360	42,680	42,680	42,680
Annual Occupancy:	58.00%	74.00%	74.00%	74.00%
Average Daily Rate*:	$153.00	$162.00	$167.00	$172.00
Revenue Per Available Room*:	$88.74	$119.88	$123.58	$127.28

	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Revenue	$1,306,000	100.00%	$7,058,000	100.00%	$7,276,000	100.00%	$7,494,000	100.00%
Rooms	$1,279,000	97.90%	$6,914,000	98.00%	$7,128,000	98.00%	$7,341,000	98.00%
Other Operated Departments	$27,000	2.10%	$144,000	2.00%	$148,000	2.00%	$153,000	2.00%
Departmental Expenses	$284,000	21.70%	$1,355,000	19.20%	$1,395,000	19.20%	$1,437,000	19.20%
Rooms	$273,000	21.30%	$1,297,000	18.80%	$1,336,000	18.70%	$1,376,000	18.70%
Other Operated Departments	$11,000	40.70%	$58,000	40.30%	$59,000	39.90%	$61,000	39.90%
Departmental Profit	$1,022,000	78.30%	$5,703,000	80.80%	$5,881,000	80.80%	$6,057,000	80.80%
Undistributed Expenses	$353,000	27.00%	$1,494,000	21.20%	$1,538,000	21.10%	$1,585,000	21.20%
Administrative & General	$122,000	9.30%	$516,000	7.30%	$531,000	7.30%	$547,000	7.30%
Marketing	$109,000	8.30%	$462,000	6.50%	$476,000	6.50%	$491,000	6.60%
Property Operation and Maintenance	$63,000	4.80%	$267,000	3.80%	$275,000	3.80%	$283,000	3.80%
Utility Costs	$59,000	4.50%	$249,000	3.50%	$256,000	3.50%	$264,000	3.50%
Gross Operating Profit	$669,000	51.20%	$4,209,000	59.60%	$4,343,000	59.70%	$4,472,000	59.70%
Base Management Fee	$91,000	7.00%	$494,000	7.00%	$509,000	7.00%	$525,000	7.00%
Fixed Expenses	$321,000	24.60%	$797,000	11.30%	$809,000	11.10%	$821,000	11.00%
Property Taxes	$90,000	6.90%	$389,000	5.50%	$397,000	5.50%	$405,000	5.40%
Insurance	$31,000	2.40%	$133,000	1.90%	$137,000	1.90%	$141,000	1.90%
Ground Rent	$200,000	15.30%	$275,000	3.90%	$275,000	3.80%	$275,000	3.70%
Net Operating Income Before Reserve	$257,000	19.70%	$2,918,000	41.30%	$3,025,000	41.60%	$3,126,000	41.70%
FF&E Reserve	$26,000	2.00%	$282,000	4.00%	$291,000	4.00%	$300,000	4.00%
Net Operating Income After Reserve	$231,000	17.70%	$2,637,000	37.30%	$2,735,000	37.60%	$2,827,000	37.70%

Note: Three Months of Operations

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

Projected Operating Results Table 33

	2020	2021	2022	2023	2024
Number of Units:	158	158	158	158	158
Number of Annual Rooms Available:	57,670	57,670	57,670	57,670	57,670
Number of Rooms Occupied:	42,680	42,680	42,680	42,680	42,680
Annual Occupancy:	74.00%	74.00%	74.00%	74.00%	74.00%
Average Daily Rate:	$177.00	$183.00	$188.00	$194.00	$200.00
Revenue Per Available Room:	$130.98	$135.42	$139.12	$143.56	$148.00

	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Revenue	$7,711,000	100.00%	$7,972,000	100.00%	$8,191,000	100.00%	$8,452,000	100.00%	$8,713,000	100.00%
Rooms	$7,554,000	98.00%	$7,810,000	98.00%	$8,024,000	98.00%	$8,280,000	98.00%	$8,536,000	98.00%
Other Operated Departments	$157,000	2.00%	$162,000	2.00%	$167,000	2.00%	$172,000	2.00%	$177,000	2.00%
Departmental Expenses	$1,480,000	19.20%	$1,525,000	19.10%	$1,570,000	19.20%	$1,618,000	19.10%	$1,666,000	19.10%
Rooms	$1,417,000	18.80%	$1,460,000	18.70%	$1,503,000	18.70%	$1,549,000	18.70%	$1,595,000	18.70%
Other Operated Departments	$63,000	40.10%	$65,000	40.10%	$67,000	40.10%	$69,000	40.10%	$71,000	40.10%
Departmental Profit	$6,231,000	80.80%	$6,447,000	80.90%	$6,621,000	80.80%	$6,834,000	80.90%	$7,047,000	80.90%
Undistributed Expenses	$1,632,000	21.20%	$1,680,000	21.10%	$1,732,000	21.10%	$1,784,000	21.10%	$1,837,000	21.10%
Administrative & General	$564,000	7.30%	$580,000	7.30%	$598,000	7.30%	$616,000	7.30%	$634,000	7.30%
Marketing	$505,000	6.50%	$520,000	6.50%	$536,000	6.50%	$552,000	6.50%	$569,000	6.50%
Property Operation and Maintenance	$291,000	3.80%	$300,000	3.80%	$309,000	3.80%	$319,000	3.80%	$328,000	3.80%
Utility Costs	$272,000	3.50%	$280,000	3.50%	$289,000	3.50%	$297,000	3.50%	$306,000	3.50%
Gross Operating Profit	$4,599,000	59.60%	$4,767,000	59.80%	$4,889,000	59.70%	$5,050,000	59.70%	$5,210,000	59.80%
Base Management Fee	$540,000	7.00%	$558,000	7.00%	$573,000	7.00%	$592,000	7.00%	$610,000	7.00%
Fixed Expenses	$834,000	10.80%	$846,000	10.60%	$868,000	10.60%	$880,000	10.40%	$894,000	10.30%
Property Taxes	$413,000	5.40%	$421,000	5.30%	$430,000	5.20%	$438,000	5.20%	$447,000	5.10%
Insurance	$146,000	1.90%	$150,000	1.90%	$155,000	1.90%	$159,000	1.90%	$164,000	1.90%
Ground Rent	$275,000	3.60%	$275,000	3.40%	$283,000	3.50%	$283,000	3.30%	$283,000	3.20%
Net Operating Income Before Reserve	$3,225,000	41.80%	$3,363,000	42.20%	$3,448,000	42.10%	$3,578,000	42.30%	$3,706,000	42.50%
FF&E Reserve	$308,000	4.00%	$319,000	4.00%	$328,000	4.00%	$338,000	4.00%	$349,000	4.00%
Net Operating Income After Reserve	$2,918,000	37.80%	$3,045,000	38.20%	$3,121,000	38.10%	$3,241,000	38.30%	$3,358,000	38.50%

Note: Three Months of Operations

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

Valuation of the Hotel

We will first value the Hotel using a direct capitalization analysis. Direct capitalization converts anticipated net income to an indicated market value by use of an appropriate rate, which reflects the relationship of net income to the selling price for comparable properties being sold in the market. Direct capitalization for an improved property uses an overall capitalization rate that provides a return on the investment and a return of the asset. No element of time is introduced. To estimate the value of the subject by direct capitalization, the projected net operating income estimated for a projected stabilized year is divided by an overall capitalization rate (OAR).

Capitalization Rate

The capitalization rate is simply the ratio of the net income of a property to the value or price that an investor would pay for the right to receive that net income. Influences most affecting the price an investor would pay are quality, quantity, and probable duration of the net income expectancy.

A capitalization or overall rate (OAR) can be selected by several methods. The methods used include:

- Derivation through comparable sales;
- Derivation through the band of investment technique; and,
- Derivation through debt coverage formula.

A discussion of each method is provided in the following paragraphs.

Derivation through Comparable Sales and Industry Surveys - In this method, the overall capitalization rate is developed by dividing the net operating income of selected comparable sales by their cash equivalent sale prices. The following table summarizes the most recent sales of comparable hotels along with their corresponding capitalization rates.

Comparable Hotel Sales Capitalization Rates **Table 34**

Hotel Name	Location	Sale Date	Overall Cap Rate
TownePlace Suites	Anaheim, CA	12-Dec	9.00%
Residence Inn by Marriott	Oxnard, CA	12-Sep	9.30%
Embassy Suites	Anaheim, CA	12-Aug	7.50%
Hilton Garden Inn	Valencia, CA	12-Aug	6.70%
Courtyard by Marriott	Oxnard, CA	12-Aug	8.40%
Embassy Suites	Valencia, CA	12-May	8.10%
Doubletree Hotel	Commerce, CA	11-Dec	6.50%

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

As shown in the table above the capitalization rates ranged from 6.5 percent to 9.3 percent, with an average of 7.9 percent. Based on our knowledge of these sales, investor were making purchasing decisions with the expectation of higher income levels going forward, as the economy recovers and the hotels become more profitable. We have also presented the following investment surveys.

Derivation through Industry Surveys - We have considered investor survey input, published in PKF Consulting's *Hospitality Investment Survey* 2012, PwC's and RERC's *Investor Survey*, Third Quarter 2012 and Winter 2013, respectively. These results are summarized in the following table.

Industry Survey Derivation **Table 35**

Source	Range	Average
PKF Consulting Hospitality Investment Survey 2012 Limited-Service Hotels (Next 12 Months)	7.0% - 13.0%	9.10%
PricewaterhouseCoopers Korpacz Real Estate Investor Survey Third Quarter 2012 Limited-Service Lodging Segment	8.0% - 12.0%	9.70%
Real Estate Research Corporation Real Estate Report Winter 2013 All Hotels	5.8% - 10.0%	8.10%

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

The indicated range of going-in capitalization rates from the preceding surveys ranges widely between 5.8 and 13.0 percent, but has a much narrower average between 8.1 and 9.7 percent. Although the investor surveys represent current information, they reflect data from hotel transactions that have occurred throughout the nation and across different property types.

Taking into account the comparable sales and investor surveys, we are of the opinion that an OAR of **8.5 *percent***, is appropriate to value the Hotel. This selection of capitalization rate is within industry averages for a hotel of the subject's nature and appropriate given the Hotel's anticipated opening date in October 2015 and likely positioning within a viable lodging market

Overall Rate Using the Band of Investment Technique

A second approach to deriving the overall capitalization rate is the band of investment technique. Since, historically, most properties are purchased with debt and equity capital, the overall capitalization rate must satisfy the market return requirements of both investment positions. Lenders must receive an interest rate commensurate with the perceived risk or they will not make funds available, and equity investors must anticipate receiving a competitive equity return for the commensurate risks or they will invest their funds elsewhere.

A simplified band of investment model focuses on four components: the mortgage constant, the mortgage ratio, the equity dividend and the equity ratio. The mortgage constant is the ratio of annual debt service to the principal amount of the loan. The mortgage ratio is the percentage of the total purchase price comprised of financing. The equity dividend is the ratio of cash flow after debt service (pre-tax) to equity investment. It should be noted that the equity dividend is not the same as the equity yield. The equity ratio is the percentage of the total purchase price comprised of equity investment. The formula for deriving the capitalization rate using this model is shown as follows:

R_o	=	$(R_m \times M) + (R_e \times (1 - M))$
R_o	=	Overall Rate
R_m	=	Mortgage Constant
M	=	Loan to Value Ratio
R_e	=	Equity Dividend
1-M	=	Equity Ratio

PKF Consulting's *Hospitality Investment Survey*, presented in the Addenda, surveys individual investors. We have utilized this survey to determine available financing terms for a hotel investment such as the subject property. Based on the survey results, we have concluded that the loan terms for a hotel such as the subject would be based on a 60 percent loan to value with an interest rate of 6.0 – 10.0 percent. The amortization period for these loans is typically 25 years with a five to ten year term. Based on our knowledge of the Hotel,

we have assumed a loan with an interest rate of 6.50 percent for this analysis. This equates to a mortgage constant (assuming monthly payments) of 8.10 percent.

Based upon the property characteristics of the subject, we are of the opinion that a 9.0 percent equity dividend rate properly reflects the return requirements of investors who would leverage their acquisition of the subject. The calculation of the capitalization rate for the subject using this approach is as follows:

$$R_o = (0.0810 \times 0.60) + (0.09 \times (1 - 0.60))$$
$$R_o = (0.0486) + (0.0360)$$
$$R_o = 8.46\%$$

Capitalization Rate Using the Debt Coverage Formula

In addition to traditional lending criteria, lenders sometimes use another criterion when making business real estate loans. This can include the use of the debt coverage ratio, which is the ratio of net operating income to annual debt service. Lenders are concerned with the safety of the loan investment and consequently require a spread between the expected NOI and the mortgage payment, so that the borrower will be able to meet debt service obligations. To estimate the overall rate, the debt coverage ratio can be multiplied by the mortgage constant and the loan to value ratio. The formula is as follows:

R_o	=	DCR x R_m x M
R_o	=	Overall Rate
DCR	=	Debt Coverage Ratio
R_m	=	Mortgage Constant
M	=	Loan to Value Ratio

In the most recent edition of PKF Consulting's *Hospitality Investment Survey*, the range of required debt coverage ratios was between 1.2 and 2.0 of net operating income. After considering the above information, it is our opinion that a 6.50 percent interest loan could be obtained for the subject property at a debt coverage ratio of 1.75. This results in the following indicated capitalization rate:

$$R_o = 1.75 \times 0.0810 \times 0.60$$
$$R_o = 8.51\%$$

Capitalization Rate Conclusion

The three techniques used to select a capitalization rate provide varying indicators for the valuation of the Hotel. The conclusions reached using each approach are restated below.

Derivation from Comparable Sales	8.5%
Derivation from Band of Investment	8.5%
Derivation from Debt Coverage Formula	8.5%

Of the three techniques, the greatest weight in the final selection of a capitalization rate is placed on the comparable sales and industry surveys. The comparable sales approach is useful because it directly reflects the actions of buyers and sellers in the market based on information from reliable sources. The band of investment approach is also given consideration in that it looks explicitly at the debt and equity components of the transaction. The shortcoming of this technique is that its focus is on the equity dividend and does not focus on total equity yield over a typical holding period. Least weight is placed on the debt coverage formula, as lender's debt service coverage ratios are highly variable.

Based on the foregoing analysis, it is our opinion that a going-in capitalization rate of ***8.5 percent*** is appropriate for the Hotel. This rate properly reflects the return expectations for investors in this class of hotel given the location of the property, anticipated facilities, and market positioning.

Stabilized Value Calculation - Direct Capitalization

Based on our projection of net operating income for a stabilized year of operation in 2013 dollars, and the selected overall capitalization rate of 8.5 percent, the value of the Hotel as if stabilized is calculated to be as follows.

Valuation - Direct Capitalization **Table 36**

Net Operating Income (Rep. Year inflated to Year 1 Rate)	$2,540,856
Overall Capitalization Rate	8.50%
Value Before Income Loss	$29,892,418

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

From this derived stabilized value, a deduction is made for the costs required for the hotel to achieve the projected stabilized level of income. This cost is typically referred to as "rent or income loss." The explanation of this deduction or addition is presented as follows.

Income Loss Calculation

Income loss is the difference in projected cash flows and the cash flow that would be available if the property were stabilized. This amount must be added to the stabilized value to reflect the increase in future occupancy levels and income. Based on our market research and analysis, it is estimated that the Hotel will achieve full stabilization in 2021, primarily based upon the way in which the ground rent is structured. This period until stabilization is defined as the subject's increase in occupancy, as well as average daily rate. The income loss for the subject is shown in the following table.

Income Loss Calculation **Table 37**

Year	Projected NOI	Representative Year NOI	Income Loss	PV 5.50%	PV
2015	$231,000	$635,214	$404,214	0.986704	$398,839
2016	$2,162,000	$2,617,081	$455,081	0.935264	$425,621
2017	$2,637,000	$2,695,594	$58,594	0.886507	$51,944
2018	$2,735,000	$2,776,461	$41,461	0.840291	$34,840
2019	$2,827,000	$2,859,755	$32,755	0.796484	$26,089
2020	$2,918,000	$2,945,548	$27,548	0.754961	$20,798

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

As shown above, the cumulative income loss over the stabilization period is $1,019,653. Investors typically discount the estimated income loss at either the internal rate of return for the property or at a "safe rate" such as AAA bonds or short-term treasury bills. For the purpose of this analysis, we have chosen to discount the income loss at the safe rate, or a rate that easily could be achieved if this additional cash flow were available for short-term reinvestment. Whether this income loss is discounted at the internal rate of return or at a safe rate, this discounting process has only a small effect on the overall value estimate. Consequently, if the sum of the income losses were discounted at a safe rate of 5.5 percent, the present value of the estimated rent loss would be $958,131.

Value Conclusion - Direct Capitalization

Presented below is a table summarizing the calculation of the market value of the Hotel via the direct capitalization method.

Valuation Conclusion	Table 38
Value Before Income Loss	$29,892,418
Less Income Loss	958,131
Direct Capitalization Value (Rounded)	$28,900,000

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

Valuation Using Discounted Cash Flow Analysis

The value through this analysis reflects the present value of the income for each year of the holding period, as well as the present value of the net proceeds of the sale of the property in the terminal year, with these amounts discounted to present value at a market-derived discount rate.

Value of the Reversion

To estimate the value of the subject using a discounted cash flow analysis, it is assumed that the property will be sold at the end of the tenth year of a typical ten-year holding period. The value of the property at that time is estimated by capitalizing the expected or anticipated net operating income of the property in the eleventh year. The reversion year is adjusted to reflect the real estate taxes that would occur upon the sale.

Based on an analysis using the comparable sales, band of investment, and debt coverage ratio methods, it is our opinion that an overall capitalization rate of 8.5 percent would be warranted for the Hotel if sold today. This rate is adjusted to ***9.0 percent***, 50 basis points higher than the going-in overall rate, for the terminal rate upon reversion. The higher terminal rate reflects the increased age of the improvements at the end of the tenth year, as well as the added uncertainty of the projecting operating performance of the Hotel ten years from hence.

Net Proceeds Upon Sale (Reversion)

To estimate the reversionary value of the subject at the termination of the holding period, we have capitalized the adjusted net operating income for the property for the year of operation immediately following the sale (in this case the net operating income in 2026). To estimate the net operating income in 2026, we first add back property taxes. We then capitalize this net income by the terminal capitalization rate as described above plus the tax levy rate to reflect property taxes after sale. Lastly, to obtain the net proceeds upon sale of the property, we have deducted a sales commission of 1.5 percent. This level of commissions was based on discussions with various hotel brokers and active hotel investors. Our calculation of the proceeds upon sale is as outlined below:

Value of the Reversion	Table 39
Year 12	
NOI Before Prop Tax/Ground Rent	$4,337,000
Terminal Capitalization Rate	9.00%
Effective Levy Rate	1.10%
Combined Cap Rate	10.10%
Indicated Value at Reversion (Fee Simple Interest)	$42,940,594
Effective Levy Rate	1.10%
Property Taxes As If Owned Fee Simple	$472,347
Year 12	
NOI Before Prop Tax/Ground Rent	$4,337,000
Less Ground Rent in Year 12	($283,000)
Less Property Taxes in Year 12	($472,347)
NOI Year 12 Leasehold Basis	$3,581,653
Reversionary Leasehold Cap Rate	9.00%
Leasehold Value in Year 12	$39,796,150
Less Selling Costs	($577,000)
Net Reversion	$39,199,150

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

Discount Rate

The discount rate reflects the overall rate of return expected by the investor, weighing the relative risk of the investment in relation to other investment vehicles and the perceived risk of each component in the operation of the facility. As a rule of thumb, it often approximates the sum of the overall capitalization rate and inflation/appreciation. In order to estimate an appropriate discount rate for the subject, we have reviewed investor surveys that report discount rates for hotel investments. The results are presented in the following table.

Capitalization and Discount Rate Results **Table 40**

	Capitalization Rate		Discount Rate		Average
Source	Average	Range	Average	Range	Spread
PKF Consulting Hospitality Investment Survey 2012 Limited-Service Hotels (Next 12 Months)	9.10%	7.0% - 13.0%	11.60%	8.0% - 20.0%	2.50%
PricewaterhouseCoopers Korpacz Real Estate Investor Survey Third Quarter 2012 Limited-Service Lodging Segment	9.70%	8.0% - 12.0%	10.90%	9.0% - 13.0%	2.20%
Real Estate Research Corporation Real Estate Report Winter 2013 All Hotels	8.10%	5.8% - 10.0%	10.20%	8.0% - 12.0%	2.10%

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

As can be noted, the discount rates for hotels based on these surveys ranged between 8.0 and 20.0 percent, with an average of between 10.2 and 11.6 percent. In addition, the "spread" between the overall capitalization rates and the discount rates ranged between 2.1 and 2.5 percent with an average of 2.3 percent. This spread would indicate an appropriate discount rate to value the subject of between 10.6 to 11.0 percent, based on the 8.5 percent going-in, overall capitalization rate (OAR).

Based on the foregoing analyses, we are of the opinion that an ***11.0 percent*** discount rate is appropriate to value the subject property, 250 basis points higher than the overall capitalization rate used herein, and within the reported survey ranges.

Value Conclusion – Discounted Cash Flow

To estimate the value of the Hotel considering the projected performance of the facility through the holding period, we have used a discounted cash flow analysis. Presented in the following table is our cash flow estimate for the subject for the holding period, along with the value of the reversion deriving a value estimate.

Valuation - Discounted Cash Flow **Table 41**

Period	Number of Months	Projected NOI	11.00% PV Factor	Unrounded Present Value
2015	3	$231,000	0.974247	$ 225,051
2016	15	2,162,000	0.8777	1,897,588
2017	27	2,637,000	0.790721	2,085,131
2018	39	2,735,000	0.712361	1,948,308
2019	51	2,827,000	0.641767	1,814,275
2020	63	2,918,000	0.578168	1,687,095
2021	75	3,045,000	0.520872	1,586,057
2022	87	3,121,000	0.469254	1,464,543
2023	99	3,241,000	0.422752	1,370,138
2024	111	3,358,000	0.380857	1,278,919
2025	123	3,473,000	0.343115	1,191,638
Reversion		39,199,150	0.343115	13,449,809
Total				$ 29,998,554

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

Reconciliation and Final Estimate of Value

The income capitalization approach is undoubtedly the most commonly used method to evaluate an income producing property such as a hotel. In this approach, we have utilized two methods of analysis: the direct capitalization method and the discounted cash flow method (yield capitalization). There was good market support for both the projected cash flow of the subject as well as the capitalization and yield rates used to convert our cash flow projections into a value estimate. Both income methods resulted in comparable values, heightening our confidence in this approach. We have placed primary weight on the discounted cash flow analysis as it is the most common method used by investors.

Feasibility Conclusion

Based on the information and analysis contained herein we are of the opinion that the Hotel, as proposed, has a prospective value upon completion of approximately $30.0 million. In comparison based on our analysis

of the anticipated construction costs are more fully described in the cost approach, it is estimated that the total costs to construct the proposed 158-room Hyatt House Hotel as part of the Project is approximately $27.9 million.

However, it is important to note that the anticipated construction cost and value of the hotel upon completion are not direct comparisons as they are computed at different points in time. The subject's anticipated construction costs of $27.9 million is a current 2013 cost estimate, whereas the $30.0 million valuation estimate of the subject hotel is a prospective value upon completion as of October 2015, its anticipated opening date. Therefore in order to reconcile these figures we must deflate the prospective value of the hotel to current January 2013 dollars.

The table below presents this calculation.

Prospective Value		**Table 42**
Prospective Value Upon Completion (Oct 2015)	$	30,000,000
Deflation Rate		3.00%
Present Value Factor		0.921929
Deflated to Current Value (Jan 2013)	$	27,657,880
Current Value (Rounded)	$	27,700,000

Sources: PKF Consulting and Marshall Valuation Services (January 2013)

Therefore, the proposed project creates an anticipated financial feasibility gap of approximately $200,000 (i.e., total development costs exceeds supportable project value by this amount). We would like to further reiterate that we asked for, but were not provided with actual construction costs for the proposed hotel. If actual costs or more refined costs become available we reserve our right to revise our analysis accordingly. We further note that our construction cost estimates do not include any allowances for land, parking, or entrepreneurial profit.

As a point of reference we also direct your attention to the following material difference between our analysis and that of HR&A Advisors, which previously prepared cost and value estimates for the hotel to be developed as part of the proposed Topanga Westfield project.

- HR&A Advisors, Inc. and PKF Consulting both estimated the size of the proposed hotel to be developed as part of the Topanga Westfield Development. There were material differences between the buildable area estimates used. Based on information provided by Hyatt and preliminary plans, we estimated the total buildable area to be 107,223 square feet, or 42,608 square feet greater than HR&A. The estimated size of the proposed hotel was thus the primary reason for the wide variance in anticipated construction costs for the hotel component.

FISCAL IMPACT ANALYSIS

The City's financial contribution to the Project will be determined by the amount of site-specific tax revenue generated by the proposed development. The City would create a Community Taxing District as the financing mechanism to aid in Project financing. The maximum contribution amount, referred to by the City as the "Subvention Amount", would total 50 percent of the net present value of the City's share of the "Net New Revenue" generated by the Project. Net New Revenue is defined as General Fund tax revenues to the City generated by the Project less any revenue already generated from the site or revenues transferred from other areas of the City. After the Project is constructed, the City will review the construction costs and financing to confirm the funding gap and the Subvention Amount may be adjusted to reflect actual figures.

The following analysis of Project-generated revenue has been categorized by the following revenue sources:

- Property Taxes;
- Sales Tax and In-Lieu Sales Tax Revenue;
- Transient Occupancy Taxes;
- Motor Vehicle License Fees and Property Tax In-Lieu;
- Utility User's Tax;
- Gross Receipts Tax;
- Gas Tax;[7]
- Construction Materials Sales Tax; and
- Construction Gross Receipts.[8]

RSG also examined the cost to the City to provide police and fire services to the Project. These costs would be offset by the site-specific tax revenue generated by the Project and reduce the Subvention Amount.

The "Subvention Term" presented in all fiscal impact revenue projections begins in 2013 and ends in 2040, a 25-year term beginning from the last construction year. It is estimated that the Project will generate a Subvention Amount of $30,540,815 (25-year discounted value at 6% represented as 2013$) through the duration of the Subvention Term or until 2040. Table 43 provides a summary by revenue source of the total amount the City would be able to contribute to the Project.

[7] It should be noted that Gas Tax is not a General Fund revenue source and has been included in the analysis to be consistent with the analysis prepared by the Westfield team.

[8] Construction Materials Sales Tax and Construction Gross Receipts are one-time revenues generated during the construction period and from business tax.

SUBVENTION AMOUNT **Table 43**

Revenue Source	2013 Value	25 Year Net Fiscal Impact Nominal	NPV (6%)
Sales Tax and In-Lieu Sales Tax Revenue	$ 1,366,730	$ 53,766,193	$ 23,209,353
Transient Occupancy Taxes	860,344	34,467,738	14,404,552
Property Taxes	913,466	34,161,928	15,125,668
Gross Receipts Tax	310,161	11,723,471	5,018,927
Motor Vehicle License Fees and Property Tax In-Lieu	235,346	8,128,006	3,608,774
Utility User's Tax	101,606	4,015,935	1,714,068
Gas Tax	-	-	-
Construction Materials Sales Tax	379,648	391,240	368,742
Construction Gross Reciepts	105,950	108,718	102,454
City Service Costs	(100,000)	(5,840,258)	(2,470,909)
Total	**$ 4,173,251**	**$ 140,922,972**	**$ 61,081,630**
Subvention Amount (50%)	**$ 2,086,626**	**$ 70,461,486**	**$ 30,540,815**

Recurring Revenue

The following describes the recurring revenue sources examined, the methodology and approach used to project future revenue, and the amount of site-specific revenue generated.

Property Taxes

The City General Fund annually receives a portion of the ad valorem property taxes from the Project to pay for municipal and regional services. The City's share of the 2012-13 property taxes within the Project is approximately 26.3 percent of the general one percent property tax levy, according to County of Los Angeles Auditor-Controller's office reports. Due to voter-approved indebtedness, the City receives an additional 0.037 percent of property tax in addition to the general levy. Furthermore, a special assessment results in additional revenues of about $300.

The Project's implementation schedule estimates that it will take approximately two to three years to complete construction. [9] It is anticipated that construction of the Project will begin in 2013 and will be completed in 2015. Construction phasing for the retail component is estimated at 20 percent and 80 percent and the Costco component at 10 percent and 90 percent will be built in 2013 and 2014 respectively. The hotel component is estimated at 50 percent built in 2014 and 50 percent built in 2015.

Each year, based on the estimated development cost of $303,839,315, the City is expected to receive approximately $913,466 in property tax revenues, consisting of $798,635 from the City's share of the general levy, $114,529 of override voter-approved levies, and $302 in special assessments. Applying the maximum Proposition 13 inflation rate of 2 percent annually, the City is expected to collect over $15.1 million (2013 $) in property tax revenues over the Subvention Term.

RSG's forecast of these property tax revenues for the City and other taxing agencies is presented below in Table 44.

[9] Based on HR&A interpretation of the Westfield phasing schedule.

Summary of Project Property Tax Revenues by Taxing Entity **Table 44**

Taxing Entity	Tax Rate		Property Tax Revenues [1]
City of Los Angeles Property Tax Revenues			
City of Los Angeles General Levy	0.262847788	0.207694511	$ 798,635
City of Los Angeles Voter-Approved Indebtedness	0.037694000	0.029784679	114,529
City of Los Angeles Special Assessments			302
Other Taxing Entity General Levy Property Tax Revenues			
Los Angeles County General	0.244594317	0.193271160	$ 743,174
L.A. County Accum Cap Outlay	0.000097398	0.000076961	296
L A C Fire-Ffw	0.005618744	0.004439765	17,072
L.A.Co.Fl.Con.Dr.Imp.Dist.Maint.	0.001343641	0.001061705	4,083
La Co Flood Control Maint	0.007603590	0.006008131	23,103
Greater L A Co Vector Control	0.000293170	0.000231654	891
Educational Rev Augmentation Fd	0.081519118	0.064413984	247,687
Educational Aug Fd Impound	0.172433158	0.136251557	523,920
County School Services	0.001207990	0.000954518	3,670
Childrens Instil Tuition Fund	0.002397436	0.001894383	7,284
L.A.City Community College Dist	0.025779769	0.020370407	78,329
L.A.Comm.Coll.Children'S Ctr Fd	0.000266564	0.000210631	810
Los Angeles Unified School Dist	0.189801825	0.149975762	576,693
Co.Sch.Serv.Fd.- Los Angeles	0.000010581	0.000008361	32
Dev. Ctr. Hdcpd Minor-L A Unif.	0.001070559	0.000845924	3,253
Los Angeles Childrens Center Fd	0.003114352	0.002460868	9,463
Other Taxing Entity Voter-Approved Indebtedness			
Unified Schools	0.175606000	0.138758642	$ 533,560
Commnty College	0.048750000	0.038520801	$ 148,122
Metro Water Dist	0.003500000	0.002765596	$ 10,634
Total Property Tax Revenues			$ 3,845,541

[1] Project Property Tax Revenues are presented as a single-year revenue in 2013 Dollars.

Source: County of Los Angeles Auditor-Controller, RSG Fiscal Impacts

Sales Tax and In-Lieu Sales Tax Revenue (2004 Triple Flip Revenue)

One out of the 9 percent of the sales tax levied in the City by the State of California[10] is returned to the jurisdiction where the sales tax originated in what is referred to as the "situs rule". On March 2, 2004, the state electorate approved Proposition 57, which, in part, mandates the exchange of one-quarter (0.25 percent) of the previous 1.00 percent sales tax revenues to local municipalities for an equal amount of property tax revenues. These additional property tax revenues are referred to as "in-lieu sales taxes" or "triple flip revenue", and took effect on July 1, 2004; they continue until the state deficit bailout bonds are paid off in approximately 10 years, after which time it is presumed that in-lieu sales taxes would revert back to local municipalities as sales tax revenue.

According to Westfield, the Project's retail space may include approximately 172,156 square feet of shopper goods, 73,268 square feet of day spa and hair services, 75,504 square feet of dining and quick service food, 29,590 square feet of food and beverage stores, and 16,603 square feet of non-taxable services. Sales tax revenue is determined by the estimated sales tax revenue generated per square foot of leasable area multiplied by the City's share of sales tax (currently 1 percent). RSG collected published market data to estimate the sales tax per square foot values generated by each of the proposed retailers.

The net new revenue generated by sales tax is expected to be $1,366,730 annually. The Project includes the construction of a new Costco building and the existing Costco on Roscoe Blvd will relocate to the new

[10] http://www.boe.ca.gov

location. The new Costco is simply transferring revenue from the existing Costco and therefore only 20,407 square feet of the new Costco has been included in this analysis to account for larger size of the new building.

RSG implemented a 3 percent growth rate over the Subvention Term and estimated a 95% tenant occupancy rate. During this period, the City is expected to receive over $23.2 million in sales tax revenues (2013 $).

Sales Tax/Property Tax In Lieu Summary **Table 45**

	Taxable Sales per SF	Annual Sales Tax
Shopper Goods	$444	$ 725,720
Eating and Drinking	$452	324,313
Convenience Goods	$600	168,663
Partial Costco	$619	126,387
Health, Spa and Hair	$31	21,647
Other/NonTaxable	$0	-
Total City Sales Tax/Property Tax In Lieu Revenues		1,366,730

Sources: City of Los Angeles, US Business Reporter, ICSC, International Spa Association, Security and Exchange Commission, Westfield Lease Rate Schedule (Nov 28, 2011) and HR&A

Transient Occupancy Taxes

Transient occupancy taxes ("TOT") result from a fee charged upon hotel room stays. The City has a 14 percent TOT rate. Westfield is proposing to construct a new, 7-story, 158-room Hyatt House hotel as part of the Project. As detailed in the development cost section of this Report, the Hyatt House hotel will be an extended stay product offering larger room sizes and rooms with up to two bedrooms.

The number of rooms occupied, room rate, and the City's TOT tax rate determines the amount of TOT collected by the City. PKF performed a comprehensive analysis of average daily rates and occupancy rates for the hotel product type proposed in the Project. The hotel offers a total of 57,670 available rooms per year. According to PKF, occupancy rates will increase from 58 to 74 percent between 2015 and 2017, stabilizing thereafter at 74 percent. The market supports an average daily room rate of $153 in 2015, and PKF projects a 3% annual inflation on the average daily room rate.

The Project is expected to generate over $967,000 per year, once stabilized in 2017, and approximately $14.0 million over the 25-year projection period (2013 dollars).

Transient Occupancy Tax Summary **Table 46**

Tax Year	Average Daily Rate	Occupancy Rate	Annual TOT Revenues
2015	$153	58%	$ 179,117
2016	$158	67%	854,692
2017	$162	74%	967,887
2018	$167	74%	997,760

Source: PKF Consulting

Motor Vehicle License Fees and Property Tax In-Lieu

Established in 1935, the Motor Vehicle License Fee ("VLF") was essentially a tax on the ownership of a vehicle. It is collected by the State annually when vehicles are registered, and was historically allocated to cities and counties based upon a statutory formula. In 2004, during the State's budget crisis, about 90 percent of a city's VLF revenue was replaced with property tax revenue, and cities in particular began to receive an allocation of property tax from ERAF in an amount equal to what they would have received in VLF under an older VLF allocation formula. Under current law, the property tax in-lieu of VLF revenue increases based on

assessed value growth instead of population growth in a jurisdiction, so estimated revenues are based on changes in assessed value created by the Project.

The Project is estimated to increase city-wide assessed valuation by $303,839,315 and will generate approximately $235,346 in estimated annual In-Lieu VLF revenues at build-out. RSG applied a 2 percent growth rate over the Subvention Term and accounted for the Project's implementation schedule (detailed in the Property Tax revenue section). As depicted in Table 47, the City is expected to receive $3,608,774 in In-Lieu VLF revenues (2013 $) throughout the Subvention Term.

Property Tax In Lieu of Motor Vehicle License Fee Estimate **Table 47**

The Village at Topanga Westfield

Estimated Fee Scenarios	04/05 AV	11/12 AV	Growth	City of LA Base Value	11/12 VLFAA
Retail Component (Including Costco)					
No Project	$286,911,341,822	$419,126,705,477	46.1%	$222,233,624	$324,644,004
Village Increased AV	$286,911,341,822	$419,402,644,792	46.2%	$222,233,624	$324,857,739
	Property Tax In Lieu of VLF attributable to the Village Project - Retail Component				**$213,735**
Hotel Component					
No Project	$286,911,341,822	$419,126,705,477	46.1%	$222,233,624	$324,644,004
Village Increased AV	$286,911,341,822	$419,154,605,477	46.1%	$222,233,624	$324,665,614
	Property Tax In Lieu of VLF attributable to the Village Project - Retail Component				**$21,611**

Utility User's Tax

The City of Los Angeles Municipal Code Article 1.1, Chapter 2 imposes a tax on telephone, electricity, and natural gas users in the City. Telephone use has been excluded from this analysis due to unpredictable use patterns. Electricity and natural gas, however, are predictable utilities. Retail uses generally consume $1.51 electricity costs per square foot and $0.21 natural gas costs per square foot. The City's electricity utility user tax is 12.5 percent of the electricity bill and the natural gas utility user tax is 10 percent of the natural gas bill.

For the purpose of this analysis, RSG assumes that 5 percent of the retail space in the Project is vacant, excluding Costco, resulting in 354,046 square feet of retail space requiring electricity and natural gas. RSG assumed that Net New Revenue generated from increased square footage of the new Costco (20,407 square feet) would be 100 percent occupied. The retail space is anticipated to generate electricity bills of approximately $533,362 per year, resulting in $65,676 electricity utility user tax revenues per year (2013 dollars). Likewise, the retail space generates natural expenditures of $75,121, resulting in $7,400 natural gas utility user tax revenues per year. Assuming an annual 3% inflation rate, the Project will generate $1.7 million in electricity and natural gas utility user taxes over the Subvention Term (Table 48).

Utility User Tax Summary **Table 48**

	Utility Cost per Square Foot	Total Tax Revenues
Electricity		
Retail	$1.51	$ 65,676
Partial Costco	$1.51	3,843
Hotel	$0.16	17,558
Natural Gas		
Retail	$0.21	7,400
Partial Costco	$0.21	433
Hotel	$0.03	3,646
Telephone		
Hotel		3,052
Total City Property Tax Revenues		101,606

Sources: US Departmentof Energy (HR&A), City of Los Angeles, PKF Consulting

Gross Receipts Tax

Section 21, Article 1, Chapter 2 of the Municipal Code outlines business taxes, to be imposed and collected by the City Office of Finance (also referred to as the Gross Receipts Tax). The Office of Finance Tax Information Booklet[11] outlines the commercial categories and rates at which business taxes are imposed. The three categories critical to this analysis are Retail Sales (Section 21.44 of the Business Tax Ordinance), Professions and Occupations Businesses (Section 21.49 of the Business Tax Ordinance), and Rental of Commercial Property (Section 21.43 of the Business Tax Ordinance).[12] Table 49 outlines the gross receipts tax rates for the varying business categories present in the Project.

Gross Receipts Tax **Table 49**

Use Category	Gross Receipts Tax
Retail Sales	$1.27 per $1,000 gross receipts
Professional and Occupations	$5.07 per $1,000 gross receipts
Rental of Commercial Property	$1.27 per $1,000 gross receipts
Wholesale Sales	$1.01 per $1,000 gross receipts

Source: City of Los Angeles Tax Information Booklet

A majority of the tenants in the Project are expected to fall in the Retail Sales category, including apparel, furniture and home, outdoor, restaurants, and food and beverage stores. Some tenants will fall in the Professional and Occupations Businesses category, including the fitness center, spa and hair salons. Finally, the rental of the Project to the tenants will result in taxable gross receipts in the Rental of Commercial Property category.

Gross receipts tax is determined by applying the City's tax rate to the annual sales generated by the tenants and is similar to sales tax but the tax is levied on the seller of the goods or services and not the goods themselves. RSG estimated the gross receipts tax generated by the proposed tenants assuming a 95% occupancy rate. The Retail Sales category is expected to increase gross receipts tax revenues by approximately $178,851 per year. The Professional and Occupations Businesses category is expected to raise about $109,754 per year. Finally, the Rental of Commercial Property category is expected to produce approximately $21,557 per year. The total annual gross receipts tax revenues produced by the Project are

[11] http://finance.lacity.org/content/TaxInfoBooklet.htm

[12] For reference, Wholesale Sales are taxed at a rate of $1.10 per $1,000 gross receipts.

$310,161. Assuming an annual inflation rate of 3%, the total gross receipts tax revenues are expected to eclipse $5.0 million (2013 dollars) throughout the Subvention Term.

Gross Receipts Tax Summary **Table 50**

		Value
Retail Sales Gross Receipts Tax	$	178,851
Business and Professions Gross Receipts Tax		109,754
Rental of Commercial Property Gross Receipts Tax		21,557
Total City Gross Receipts Tax Revenues		310,161

Sources: City of Los Angeles, RSG Gross Sales, US Business Reporter, ICSC, International Spa Association, Security and Exchange Commission, Westfield Lease Rate Schedule (Nov 28, 2011) and HR&A

Gas Tax

In 1994, the State passed Proposition 111 that imposed an excise tax on motor vehicle fuels, known as Gas Tax including gasoline, diesel, and use fuel tax. Revenue generated by the Gas Tax is transferred to the State's Highway Users Tax Account and is allocated to counties and cities to maintain, rehabilitate, improve, and operate the highway system or for capital outlay projects. Gas tax is levied for every gallon of gasoline or diesel purchased by California consumers and is included in the total costs charged at a gas station.

Gas tax is apportioned to cities, such as the City of Los Angeles, on a per capita basis. The allocation is proportional to the total population of a city to the population of all the cities in the State. Thus the State's Highway Users Tax Account is funded collectively by Gas Tax levied throughout the State and is then apportioned to cities based on population. Increasing the sales or supply of gas in specific city does not have a direct correlation to the amount of revenue that is allocated to that same city. Because there are so many variables related to estimating Gas Tax, such as Statewide consumption and local changes in population, RSG typically does not attribute additional Gas Tax revenue to a specific city from the development of a new gas station.

The Project includes a new gas station that will be constructed as part of the Costco development. Westfield indicated that the Costco along Roscoe Blvd, which includes a gas station, will relocate to the Project site. In actuality, the gas station is being relocated from one location in the City to another and the Project will not increase the supply of gasoline from which the Gas Tax is levied. For this reason and the method of allocating Gas Tax revenue to the City, RSG does not believe that Gas Tax should be counted as additional revenue to the City as a result of the Project. In addition, Gas Tax is not a source of revenue to the City's General Fund and has specific restrictions on use of the funds.

One-Time Revenues

The following describes the one-time construction-related revenues that the Project will generate.

Construction Sales Tax

The City has requested that Westfield purchase all Project construction items within the City of Los Angeles. This point of sale designation would increase the amount of sales tax related to construction supplies generated by the Project. Westfield is responsible for ensuring that all contractors are permitted by the State to self-report sales tax.

Construction sales tax revenues are the result of the City's sales tax rate assessed on the Project hard costs. Hard costs include materials purchased in order to construct the Project, such as lumber, concrete, or piping. Hard costs also include the labor required to construct the Project. RSG utilized RSMeans Building Construction Cost Data (2013) and Square Foot Costs (2013) to estimate the percent of hard costs that are material- and labor-derived. Between 70 and 85 percent of construction hard costs are material purchases, whereas between 15 and 30 percent of hard costs are derived from labor. Furthermore, RSG estimated that

50 percent of material costs are taxable sales. The City's sales tax rate is 1.0 percent, as previously discussed in the Sales Tax/Property Tax in Lieu section. The total impact of Construction Sales Taxes are expected to be approximately $379,648 or $368,742 (2013 $). Table 51 provides the total sales tax revenues when these various rates are applied to the Project hard costs.

Construction Sales Taxes **Table 51**

Construction Materials Sales Tax	Costco	Retail	Hotel	Total
Hard Construction Costs	$ 18,781,957	$ 74,832,359	$ 10,831,748	$ 104,446,064
Materials Share	85.0%	70.0%	70.0%	
Labor Share	15.0%	30.0%	30.0%	
Materials Share Subject to Tax	50.0%	50.0%	50.0%	
Tax Rate	1.0%	1.0%	1.0%	
Total Sales Tax Revenues	**$ 79,823**	**$ 261,913**	**$ 37,911**	**$ 379,648**

Sources: RSG Fiscal Impacts, RSMeans, California State Board of Equalization

Construction Gross Receipts

Section 21.188 of the City's Business Tax Ordinance establishes a gross receipts tax for persons engaged in the construction, alteration, repair, or demolition of any building. The gross receipts tax includes a base tax of $153 on all construction up to $60,000. Beyond $60,000, the construction business is taxed at a rate of $1.01 for every $1,000 in excess of $60,000. The base tax and tax rate per $1,000 gross receipts is applied to the Project hard costs as these are the costs to the Project contractor. The Total Project Gross Receipts Tax Revenues are expected to be approximately $105,590 or $102,454 (2013 $). Table 52 provides the total gross receipts tax revenues generated as a result of the Construction Gross Receipts analysis.

Construction Gross Receipts Taxes **Table 52**

Construction Gross Receipts Taxes		Costco	Retail	Hotel	Total
Hard Construction Costs		$ 18,781,957	$ 74,832,359	$ 10,831,748	
Tax Rates					
Base Tax		153	153	153	
Tax Rate	(per $1,000)	1.01	1.01	1.01	
Total Gross Receipts Tax Revenues		**$ 19,123**	**$ 75,734**	**$ 11,093**	**$ 105,950**

Sources: RSG Fiscal Impacts, City of Los Angeles Tax Information Booklet

City Service Costs

The Project could increase expenditures for the City's General Fund to pay for any additional police of fire services that directly result from the Project. The revenues previously described would be used by the City to offset the cost of providing these services.

Fire and Emergency Response Services

The Project Environmental Impact Report ("EIR") and information from the Los Angeles Fire Department ("LAFD") indicate that there are sufficient resources to provide fire and emergency response services to the Project. There are three LAFD fire stations located with less than 1.5 miles from the Project. Response times for all three fire stations meet the national standards. Fire calls arrive within five minutes 90 percent of the time and medical calls arrive within eight minutes 90 percent of the time. Fire Station No. 72, located within 1.3 miles of the Project, has response times that are less than the City's average and the capacity to provide services to the daytime population increase created by the Project. The Fire Prevention Bureau will be impacted by increased inspector hours necessary for the Project. However, there is no plan at this time to increase personnel in the Fire Prevention Bureau. It is anticipated that an increased costs for inspection services will total $60,720 for the first year and taper off significantly in subsequent years. Based on this

information it is assumed that the Project will not have a significant financial impact on the City. Future development proposals in the area may exceed City thresholds for service and additional costs will be evaluated at that time.

Police Services

The demand for Police services is greater in residential neighborhoods. The Project does not include the development of residential units or substantially increase the need for residential uses in the area. Thus, as evidenced in the EIR, the Project will not create a significant impact to the Los Angeles Police Department ("LAPD") or require additional Police services. The Project site is currently served by the Topanga Community Police Station, which opened in 2009, to better serve the surrounding community and currently employs 261 staff members. LAPD indicated that existing staffing and resources are sufficient to handle any impacts from the Project. Additionally, Westfield is providing security features on the site including foot patrol, surveillance cameras, and other security features. RSG estimated a $40,000 annual impact to LAPD to account for any unforeseen impacts caused by the Project, such as increased theft calls or disturbances in the parking lot.

RSG conservatively projects a $100,000 per year impact to the City's General Fund for both fire and police services resulting from the Project. City service costs were inflated by 5% and the City is expected to spend $2,470,909 (2013 $) in City Service Costs throughout the Subvention Term (Table 53) .

City Service Costs Table 53
Police and Fire Departments

	Costs
Police	$40,000
Fire	$60,000
Total	$100,000

Source: EIR and City Departments

Fiscal Impact Summary

Per the City's Subvention Amount policy, the maximum contribution to the Project using all of the revenue sources previously discussed and accounting for added City Service Costs is $30,540,815. Table 54 provides an annual forecast, by revenue source, of the site-specific tax revenues generated by the Project. The values in the table are represented in both nominal dollars and 2013 dollars (NPV 6%). Based on the City's prior experiences and the stability of the revenue sources, the City may wish to use the entire estimated Subvention Amount or only certain site-specific revenues.

- There are a few major differences between RSG's and HR&A's analyses of the fiscal impacts generated by the Project and the total subvention amount available to offset the cost of the Project.RSG only included "Net New Revenue" in our analysis to accurately reflect the added revenue generated by the Project. For instance, only revenue generated for the additional 20,407 square feet of space for the proposed Costco building was included in our analysis;
- RSG excluded the existing land value from our analysis and included only the value of the proposed development or improvements to the land; and
- RSG did not include Gas Tax from the Costco gas station and new revenue to the City.

FISCAL IMPACT 25-YEAR NET NEW REVENUE PROJECTIONS (NOMINAL $) Table 54

	Year	Net New Sales Tax	Net New TOT	Net New Property Tax	Net New Gross Receipts Tax	Net New MVLF In-Lieu	Net New Utility User Tax	Net New Gas Tax	Net New Construction Materials Sales Tax	Net New Construction Gross Receipts Tax	Net New City Services	Net New Total
CY 1	2013	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 12,747	$ 3,527	$ (100,000)	$ (83,726)
CY 2	2014	415,728	-	34,072	25,636	19,316	10,952	-	358,384	99,389	(105,000)	858,477
CY 3	2015	1,234,463	179,117	973,675	245,537	240,822	73,700	-	20,110	5,803	(110,250)	2,862,978
1	2016	1,429,431	854,692	1,035,088	322,525	245,638	107,514	-	-	-	(115,763)	3,879,126
2	2017	1,472,314	967,887	1,055,790	323,291	250,551	111,059	-	-	-	(121,551)	4,059,341
3	2018	1,516,483	997,760	1,076,906	332,990	255,562	114,394	-	-	-	(127,628)	4,166,467
4	2019	1,561,978	1,027,633	1,098,444	342,980	260,673	117,825	-	-	-	(134,010)	4,275,523
5	2020	1,608,837	1,057,506	1,120,413	353,269	265,887	121,357	-	-	-	(140,710)	4,386,558
6	2021	1,657,102	1,093,354	1,142,821	363,867	271,205	125,012	-	-	-	(147,746)	4,505,615
7	2022	1,706,815	1,123,227	1,165,677	374,783	276,629	128,752	-	-	-	(155,133)	4,620,751
8	2023	1,758,020	1,159,075	1,188,991	386,027	282,161	132,622	-	-	-	(162,889)	4,744,006
9	2024	1,810,760	1,194,922	1,212,771	397,607	287,804	136,605	-	-	-	(171,034)	4,869,436
10	2025	1,865,083	1,230,770	1,237,026	409,536	293,560	140,704	-	-	-	(179,586)	4,997,093
11	2026	1,921,036	1,266,618	1,261,767	421,822	299,432	144,925	-	-	-	(188,565)	5,127,033
12	2027	1,978,667	1,302,465	1,287,002	434,476	305,420	149,273	-	-	-	(197,993)	5,259,310
13	2028	2,038,027	1,344,288	1,312,742	447,511	311,529	153,751	-	-	-	(207,893)	5,399,954
14	2029	2,099,168	1,386,110	1,338,997	460,936	317,759	158,363	-	-	-	(218,287)	5,543,045
15	2030	2,162,143	1,427,932	1,365,777	474,764	324,115	163,114	-	-	-	(229,202)	5,688,642
16	2031	2,227,007	1,469,755	1,393,092	489,007	330,597	168,007	-	-	-	(240,662)	5,836,802
17	2032	2,293,817	1,511,577	1,420,954	503,677	337,209	173,047	-	-	-	(252,695)	5,987,586
18	2033	2,362,632	1,559,374	1,449,373	518,787	343,953	178,239	-	-	-	(265,330)	6,147,028
19	2034	2,433,511	1,607,171	1,478,361	534,351	350,832	183,586	-	-	-	(278,596)	6,309,214
20	2035	2,506,516	1,654,968	1,507,928	550,382	357,849	189,094	-	-	-	(292,526)	6,474,209
21	2036	2,581,711	1,702,764	1,538,086	566,893	365,006	194,766	-	-	-	(307,152)	6,642,075
22	2037	2,659,163	1,756,536	1,568,848	583,900	372,306	200,609	-	-	-	(322,510)	6,818,852
23	2038	2,738,938	1,810,307	1,600,225	601,417	379,752	206,628	-	-	-	(338,635)	6,998,631
24	2039	2,821,106	1,864,079	1,632,230	619,459	387,347	212,826	-	-	-	(355,567)	7,181,480
25	2040	2,905,739	1,917,850	1,664,874	638,043	395,094	219,211	-	-	-	(373,346)	7,367,466
Total		$ 53,766,193	$ 34,467,738	$ 34,161,928	$ 11,723,471	$ 8,128,006	$ 4,015,935	$ -	$ 391,240	$ 108,718	$ (5,840,258)	**$ 140,922,972**
NPV	6%	$ 23,209,353	$ 14,404,552	$ 15,125,668	$ 5,018,927	$ 3,608,774	$ 1,714,068	$ -	$ 368,742	$ 102,454	$ (2,470,909)	**$ 61,081,629**

ECONOMIC IMPACT ANALYSIS

Development and ongoing operation of the Project will generate employment opportunities, add labor income to the market area, and add value to the gross regional product. For the purpose of this analysis, RSG used IMPLAN model to measure the economic impacts of the Project using data in zip codes that are mostly within the boundaries of the City. IMPLAN is an input-output analysis software tool that tracks the interdependence among various producing and consuming sectors of the economy. According to MIG, Inc., the creators of IMPLAN, the software measures the relationship between a given set of demands for final goods and services and the inputs required to satisfy those demands. IMPLAN publishes countywide data on an annual basis; this analysis utilized the 2010 County of Los Angeles dataset to calculate direct, indirect, and induced impacts. The IMPLAN inputs are investment or operating costs of the Project and the resulting outputs are economic impacts, including employment generation, labor income, and gross regional product. Jobs are the primary impacts generated by IMPLAN. Labor income includes all forms of employee compensation, including wages and benefits added to the City. Finally, economic output represents the value of industry production – for service sectors, output is equivalent to gross sales, and for retail and wholesale trade, output represents gross margin, not gross sales.[13]

RSG analyzed both temporary and permanent economic impacts. The total Project hard costs ($195,034,871) derived from the feasibility analysis were used to determine temporary economic impacts resulting during construction of the Project. The temporary input data for the Project (Costco, hotel, and other retail development costs) corresponds to the IMPLAN Sector 34 "Construction of New Nonresidential Commercial and Health Care Structures" category. The Project's gross annual receipts ($168,577,757) were used to determine permanent economic impacts resulting during operation of the Project. The permanent input data categories for the Project are more complex than the temporary data and is separated into several categories:

- Retail Stores – Furniture and home furnishings, IMPLAN Sector 321
- Retail Stores – Clothing and clothing accessories, IMPLAN Sector 327
- Retail Stores – Miscellaneous, IMPLAN Sector 330
- Retail Stores – Sporting goods, hobby, book and music, IMPLAN Sector 328
- Retail Stores – Food and beverage, IMPLAN Sector 324
- Fitness and recreational sports centers, IMPLAN Sector 407
- Food services and drinking places, IMPLAN Sector 413
- Hotels and motels, including casino hotels, IMPLAN Sector 411

RSG analyzed the direct, indirect, and induced effects for each of the economic outputs both during the construction phase (Temporary Impacts) and operations phase (Permanent Impacts). The various types of effects are described below:

- Direct Effects – Refers to the direct effects that occur on the Project site resulting from development costs and operational sales revenue.
- Indirect Effects – Changes in sales, jobs, and/or income within the businesses that supply goods and services to the Project. Indirect effects do not occur directly on the Project-site but are an indirect effect to surrounding or related businesses.

[13] http://implan.com/V4/index.php?option=com_glossary&Itemid=57. IMPLAN uses a concept called "margins" to allocate expenditures through a supply chain from a retailer to a manufacturer. Essentially, using margins enables the IMPLAN model to output producer or purchaser impacts. For example, the cost associated with the manufacture of a product is $60. By the time the product is transported ($10 margin), sold by a wholesaler ($10 margin), and sold by a retailer ($20 margin), the product is $100 and includes a variety of margins. Margins apply to retail stores, like furniture and home furnishings, and food and beverages stores, but do not apply to services, like fitness and recreational sports centers, and food and drinking places.

- Induced – Regional changes resulting from additional spending earned either directly or indirectly from the Project.

The IMPLAN analysis concludes that the temporary construction component of the Project will result in 1,287 new direct jobs, 292 indirect jobs, and 546 induced jobs within the City. The total temporary direct labor income resulting from the Project is $74.5 million, indirect labor income is $21.1 million, and induced labor income totals $27.3 million. The temporary economic output of the Project directly correlates to the construction costs, including $195 million direct economic output, $51.7 million indirect economic output, and $77.7 million induced economic output. It should be noted that there

The permanent impacts attributed to the Project are 1,597 direct jobs, 186 indirect jobs, and 305 induced jobs. The permanent labor income generated by the operations of the project totals $42.4 million direct labor income, $10.8 million indirect labor income, and $15.1 million induced labor income. The permanent economic output includes $101.6 million direct economic output, $30.0 million indirect economic output, and $43.0 million induced economic output.

Economic Impact Analysis **Table 55**

	Temporary	Permanent
Jobs		
Direct	1,287	1,597
Indirect	293	187
Induced	546	305
Total	2,126	2,089
Economic Output		
Direct	$ 195,034,871	$ 101,640,343
Indirect	51,722,468	30,013,025
Induced	77,709,304	42,973,309
Total	$ 324,466,643	$ 174,626,678

Sources: Fiscal Feasibility Analysis and MIG, Inc.

Summary of Economic Impacts

RSG's economic impact estimates are lower than HR&A's estimates by approximately 18 percent for the construction phase, but nearly 33 percent lower on permanent employment. In part, RSG estimates a lower overall construction cost for the project which affects the estimates of employment and economic impact for this phase. We also exclude jobs that are already supplied in the market in our estimates under the "net new" standard of the City – which leads RSG to exclude jobs from the existing Costco that are relocating to the Project.

CONCLUSIONS

In sum, the consultant team estimates that, if developed as proposed, the Village at Westfield Topanga will have a net positive impact on the local economy, resulting in nearly 1,600 permanent jobs, $4.2 million in net new recurring tax revenues annually, plus other indirect and induced impacts. However, the Project currently faces a $48.9 million gap between the costs of development and the completed value. This gap could be closed if the following measures are pursued:

- Westfield Assistance: Westfield absorbs between $48.9 million and $22.4 million of development costs and/or value-engineers development without impairing the Project or reducing net fiscal and economic benefits.
- City Assistance: The City provides between $0 and $26.5 million (present value) of financial assistance to reduce development costs, provided there is political and policy support for such assistance. For context, the City's policy has been to provide assistance equal to not more than 50 percent of the net present value of project-generated revenues over a 25-year period. As stated in the fiscal impact section of this Report, this would equal approximately $26.5 million, or a little more than half of the Project shortfall. As such, this solution alone is not nearly enough to make the Project feasible, so Westfield would still need to participate in closing the gap by at least $22.4 million.