

ESCONDIDO REDEVELOPMENT PROJECT AREA

ESCONDIDO, CALIFORNIA

**SUMMARY REPORT PERTAINING TO THE PROPOSED AMENDED AND
RESTATED DISPOSITION AND DEVELOPMENT AGREEMENT
OF CERTAIN SITE WITHIN THE
REDEVELOPMENT PROJECT AREA**

**California Community Redevelopment Law
Section 33433**

**PURSUANT TO PROPOSED AMENDED AND RESTATED DISPOSITION AND
DEVELOPMENT AGREEMENT
BETWEEN
ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION
AND
ESCONDIDO DEVELOPMENT, LLC**

**Community Development Commission
of the
City of Escondido, California**

June 2010



KEYSER MARSTON ASSOCIATES.

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KEYSER MARSTON ASSOCIATES.

I. INTRODUCTION

A. Purpose of Report

This Summary Report was prepared in accordance with Section 33433 of the California Community Redevelopment Law in order to inform the Community Development Commission of the City of Escondido (Commission) and the public about the proposed lease between the Commission and Escondido Development, LLC (Developer) under review as of June 2, 2010. This Report describes and specifies:

1. The costs to be incurred by the Commission under the Amended and Restated Disposition and Development Agreement (DDA);
2. Estimated value of the interest to be conveyed at the highest and best use permitted under the Redevelopment Plan;
3. The estimated value of the interest to be conveyed at the proposed use and with the conditions, covenants, and development costs required by the lease of the Site;
4. The compensation to be paid to the Commission pursuant to the proposed transaction;
5. An explanation of the difference, if any, between the compensation to be paid to the Commission under the proposed transaction, and the fair market value at the highest and best use consistent with the Redevelopment Plan; and
6. An explanation of why the lease of the Site will assist with the elimination of blight.

B. Summary of Findings

KMA's principal conclusions are summarized as follows:

- The estimated cost of the DDA to the Commission totals \$18,528,000.
- The estimated fair market value of the Site at its highest and best use is \$7,410,000.
- The estimated re-use value of the interest to be conveyed is *negative* \$24,499,000.
- The estimated value of the net compensation to be received by the Commission is *negative* \$2,628,000.

C. Description of Area and Proposed Project

City Overview

The City of Escondido (City) is located at the confluence of Interstate 15 and Highway 78. It is approximately 18 miles inland, 30 miles northeast of downtown San Diego, and has a population of about 135,000. The City is a highly desirable place to live, offering a number of amenities including a range of housing options, parks and lakes, golf courses, art galleries, antique stores, restaurants, and wineries.

In the early 2000s, a number of developers began noticing the potential of downtown Escondido for both commercial and residential development. This trend continued until 2007/2008, when the national housing market downturn and credit crisis plunged the nation into recession. However, prior to the collapse several commercial projects and condominium developments were proposed in or near downtown. As the nation and Southern California start to see evidence of economic recovery, some of the previous development proposals in the City will likely become active again.

Proposed Development

The proposed 196-room, full-service Marriott brand hotel (Project) will be developed on a 2.36-acre site (Site) on the north side of West Valley Parkway adjacent to the California Center for the Arts Escondido (CCAЕ). The Site comprises the existing 25,000-SF conference center facility situated on approximately one-half of the Site and a surface parking lot comprising the remaining half of the Site.

The CCAЕ opened in 1994, and is situated on a total 12-acre site extending north of the subject Site and adjacent to the Escondido Civic Center and Downtown Escondido. The CCAЕ consists of a 1,535-seat concert hall, a 408-seat theater, museum, and the conference center.

Table 1 describes the proposed Project. The Project is planned to contain approximately 118,000 SF of gross building area (GBA) inclusive of meeting space and a restaurant in a seven-story Type I structure. In addition, the hotel will contain 220 parking spaces, of which 209 will be provided in a two-level subterranean garage, with an additional 11 surface spaces. As part of the Project, the Developer will refurbish the CCAЕ conference center and incorporate it as part of the hotel operations.

D. Proposed Transaction Terms

This section summarizes the salient business terms of the proposed DDA between the Commission and Developer.

- The Commission will lease the Site and existing conference center to the Developer for a period of 55 years. For the first 10-year period from the date the hotel commences operation, no rent will be payable. Beginning in Year 11 the Base Rent will be one percent (1%) of hotel gross revenues and will increase one percent (1%) each year thereafter, and ending in Year 15 at a maximum of 5% for the balance of the lease term. The following table summarizes the rent schedule:

Operating Year	Base Rent (% of Gross Revenue)
0 - 10	0%
11	1%
12	2%
13	3%
14	4%
15 - 55	5%

As shown in Table 2, KMA has prepared a 55-year operating cash flow for the Project and estimates that the Commission will receive total base rent of \$6,900,000 in present value terms (based on an 8.0% discount rate).

- The Commission will receive Additional Rent for any year where actual gross revenue exceeds the pro forma gross revenues by more than one million dollars. The Additional Rent will be equal to 5.0% of the gross revenue in excess of the pro forma revenue. As noted in Table 2, KMA estimates the Commission will receive total additional rent of \$1,189,000 in present value terms (base on an 8.0% discount rate).
- The Commission will contribute a maximum \$10,718,000 toward the construction of the subterranean parking.
- After the Developer has received repayment in full of the construction loan and developer equity investment, the Commission will receive 65% of project cash flow and net proceeds from any capital event until the earlier of the following: (1) the Commission has received its original contribution (\$10,718,000) plus 4% compounded interest, or (2) the 26th anniversary of the commencement of operation of the hotel.

KMA conservatively estimates zero revenue to the Commission from this participation provision, inasmuch as any sale or other capital event would be undertaken solely at Developer's discretion.

- The Developer will deliver to the Commission a performance guaranty duly executed by the Guarantors together with the financial information from the Guarantors to allow the Commission to determine whether the Guarantors are capable of performing under the Guaranty, if necessary.
- The Developer agrees to continuously use and operate the hotel for a period of 55 years from the date of the leasehold conveyance.
- The Developer and any subcontractors will comply with all governmental requirements applicable to public works, including the payment of prevailing wages.

II. COSTS OF THE DDA TO THE COMMISSION

The estimated costs of the DDA to the Commission total \$18,528,000, as shown below:

Transaction-Related Costs	Amount
Acquisition of Site and Existing Conference Facility ⁽¹⁾	\$7,410,000
Covenant Acquisition Consideration	\$10,718,000
Commission Third Party and Other Costs ⁽²⁾	\$400,000
Total Commission Costs	\$18,528,000

(1) Assumed maximum purchase price paid to City by Commission based on estimated fair market value at highest and best use. Refer to Section III.

(2) Assumed reimbursement to City for legal, economic, and other third-party consultant costs.

III. ESTIMATED VALUE OF THE INTEREST TO BE CONVEYED AT THE HIGHEST AND BEST USE PERMITTED UNDER THE REDEVELOPMENT PLAN

This section presents an analysis of the fair market value of the Site at its highest and best use.

Typically, the analysis of fair market value at highest and best use does not consider the specific Commission/Developer transaction or development concept, but rather the most profitable use that is consistent with the Redevelopment Plan, or other governing land use regulations. The purpose of the analysis is to estimate the maximum compensation that the Commission could achieve if it were to offer the subject property or development on the open market.

The highest and best use of the Site is that use that generates the highest property value. By definition, the highest and best use is the use that is physically possible, financially feasible, and legally permitted. The City's Downtown Specific Plan (revised March 10, 2010) governs the land uses for the Site. According to the Specific Plan, the Site is in the Park View District which allows for multiple uses including residential above ground floor uses, general retail, eating and drinking establishments, general office use, and specialty services. Lodging uses are allowed with a conditional use permit.

The 2.36-acre Site is comprised of a surface parking lot and the CCAE conference center. Each component contains approximately one-half of the entire Site. Therefore, KMA conducted the following surveys of comparable sales: (1) commercial and residential land sales for the parking lot portion, and (2) commercial building sales for the conference center portion. For each survey, KMA searched the communities of Escondido, Oceanside (east of I-5), Poway, Rancho Bernardo, San Marcos, and Vista.

The survey of comparable commercial and residential land sales, for the purpose of valuing the parking lot portion of the Site, consisted of 1.0 to 10.0 acres from January 2008. The results of this survey are presented in Table 3. As shown, sales ranged from about \$14 to \$41 per SF of land. The median price was \$24 per SF of land and the average was \$26 per SF of land. In KMA's view, the value of the Site would fall above the median and average sales prices due to its location in Downtown Escondido and proximity to the CCAE and Grape Day Park. On this basis, then, KMA estimates the value of the parking lot portion of the Site to be \$35 per SF land.

The survey of comparable commercial building sales, for the purpose of valuing the conference center portion of the Site, consisted of buildings of 10,000 SF to 50,000 SF sold from January 2008 to the present. The results of this survey are presented in Table 4. As shown, sales ranged from \$88 to \$390 per SF building area. The median price was \$185 per SF building and the average was \$208 per SF building. KMA believes that the value of

the conference center portion of the Site would fall toward the middle range of the comparables, or say \$225 per SF of building area.

The following table summarizes the KMA conclusion of the fair market value of the Site at its highest and best use.

Subject Site	Totals
Parking Lot Area (approximately 51,000 SF x \$35/SF)	\$1,785,000
Conference Center (25,000 SF x \$225/SF)	\$5,625,000
Total Fair Market Value at Highest and Best Use	\$7,410,000

On this basis, then, KMA finds that the fair market value of the Site at its highest and best use is \$7,410,000.

IV. ESTIMATED VALUE OF THE INTEREST TO BE CONVEYED AT THE USE AND WITH THE CONDITIONS, COVENANTS, AND DEVELOPMENT COSTS REQUIRED BY THE LEASE OF THE SITE

This section explains the principal conditions and covenants which the Tenant of the Site must meet in order to comply with the City of Escondido Redevelopment Plan. The DDA contains specific covenants and conditions designed to ensure that the conveyance of the Site will be carried out in a manner to achieve the Commission's objectives, standards, and criteria under the Redevelopment Plan. Such covenants and conditions include the Site being restricted to a 55-year operating covenant and prevailing wages.

KMA estimated the residual value of the Site based on the terms of the DDA absent any Commission contributions for subterranean parking or off-site infrastructure improvements. Tables 5 to 8 present KMA's residual value analysis for the proposed Project.

Development Costs

In calculating the direct costs of the development, KMA evaluated the pro forma submitted by the Developer in comparison with our experience with similar projects. KMA found the cost estimates to be high on a per-SF basis when compared with current industry standards for a development of this type. As shown in Table 5, total costs for the Project, excluding land acquisition, are estimated to be \$69,799,000, or \$589 per SF gross building area (GBA). These include the following:

- Total parking garage costs, such as site preparation, subterranean parking, surface parking, indirect costs, and financing costs, are estimated to be \$10,718,000, or about \$49,000 per space. These costs are inclusive of the requirement to pay prevailing wages.
- Direct construction costs, such as site preparation, parking, shell construction, tenant improvements, FF&E, and contingency, are estimated to be \$38,712,000, or \$327 per SF GBA. These costs are inclusive of the requirement to pay prevailing wages.
- Indirect costs, such as architecture and engineering, permits and fees, legal and accounting, taxes and insurance, developer fee, marketing and pre-opening expenses, and contingency, are projected to be \$9,141,000, or 23.6% of direct costs.
- Financing costs, consisting of loan fees, interest during construction, and operating deficit reserves, are estimated to be \$11,228,000, or 29.0% of direct costs.

Net Operating Income

Table 6 presents the KMA estimate of Net Operating Income (NOI) for the Project. KMA reviewed the revenue projections provided by the Developer, as well as the March 2008 market study prepared by PKF Consulting. The Developer projects an average daily rate (ADR) of \$159 in operating Year 1 and \$174 in operating year 4 (stabilized). There is considerable risk in achieving these projections due to the ongoing national recession, recent decline in hotel industry performance, and the untested nature of the Escondido hotel market.

KMA has assumed the Developer's NOI projection of \$4,147,000 at stabilization (operating year 4). This NOI projection reflects the following assumptions:

- An ADR for the hotel of \$174 per night at a 75.0% occupancy rate.
- Parking revenue at \$130 per space per month.
- Other revenue, such as food and beverage, telephone revenue, and rental revenue, equal to 70.0% of room revenue.
- Departmental, overhead, and fixed expenses totaling approximately 75.2% of gross revenue.

Residual Land Value

The residual land value supported by the Project can be estimated as the difference between the total development costs, exclusive of land acquisition, and the maximum debt and equity investment that can be attracted to the Project based on current industry standards.

Tables 7 and 8 present the KMA estimate of the Developer's Unleveraged Internal Rate of Return (IRR). KMA estimates that the Project requires a minimum unleveraged IRR of 10.0%, reflective of the level of risk associated with the location, quality, and mix of components proposed for the Project. Based on this target IRR, KMA calculates that the maximum private investment supported by the Project is \$45,300,000.

In sum, the comparison of total development costs (Table 5) and maximum supportable investment (Table 7) yields a residual land value of *negative* \$24,499,000, as follows:

Residual Land Value	Totals
Supportable Private Investment	\$45,300,000
(Less) Total Development Costs	(\$69,799,000)
Residual Land Value	(\$24,499,000)

On this basis, then, KMA concludes that the fair re-use value of the Site is *negative* \$24,499,000.

V. THE COMPENSATION WHICH TENANT WILL BE REQUIRED TO PAY

The present value of the net compensation to be received by the Commission for the Site under the terms of the lease over the 55-year term is *negative* \$2,628,000, determined as follows:

Source	Totals
Base Rent (Table 2)	\$6,900,000
Additional Rent (Table 2)	\$1,189,000
Total Estimated Compensation (rounded)	\$8,090,000
(Less) Commission Contribution (Section I-D)	(\$10,718,000)
Net Estimated Compensation to Commission	(\$2,628,000)

VI. EXPLANATION OF THE DIFFERENCE, IF ANY, BETWEEN THE COMPENSATION TO BE PAID TO THE COMMISSION BY THE PROPOSED TRANSACTION AND THE FAIR MARKET VALUE OF THE INTEREST TO BE CONVEYED AT THE HIGHEST AND BEST USE CONSISTENT WITH THE REDEVELOPMENT PLAN

The Commission will receive total compensation of *negative* \$2,628,000. The fair market value at highest and best use of the interest to be conveyed is \$7,410,000. The compensation to the Commission is significantly lower than the fair market value at highest and best use due to the following factors:

- The agreement by the Developer to continuously use and operate the hotel for a period of 55 years from the date on which the hotel commences operations under the name of the Franchisor in accordance with the Franchise Agreement and Operator Agreement
- The obligation by the Developer and its contractors to comply with governmental requirements applicable to public works, including the payment of prevailing wages.
- The obligation to commence construction within 30 days after conveyance, notwithstanding current market and financing conditions for hotel use.

VII. EXPLANATION OF WHY THE LEASE OF THE SITE WILL ASSIST WITH THE ELIMINATION OF BLIGHT

The Escondido Redevelopment Plan contains the goals and objectives and the projects and expenditures proposed to eliminate blight within the Project Area. These blighting factors include:

- Areas suffering from economic dislocation and disuse.
- Areas which are stagnant or improperly utilized, and which the planning, redesign, or redevelopment could not be accomplished by private enterprises acting alone, without public participation.
- The subdividing and sale of lots of irregular form and shape, and inadequate size for proper usefulness and development.

Implementation of the proposed DDA can be expected to assist in the alleviation of blighting conditions through the following:

- Creating a more dynamic environment that contributes to a lively community character and rich quality of life.
- Improving the image of Downtown Escondido as a business, visitor, and community center for commercial and recreation uses.
- Encouraging commercial development to provide more and diversified local employment for underemployed and unemployed residents.

VIII. LIMITING CONDITIONS

The estimates of re-use and fair market value at the highest and best use contained in this memorandum assume compliance with the following assumptions:

1. There are no known soil or subsoil problems, including toxic or hazardous conditions on the Site that need to be remediated in order to develop the Site.
2. The ultimate development will not vary significantly from that assumed in this Re-use Analysis.
3. The title of the property is good and marketable; no title search has been made, nor have we attempted to determine the ownership of the property. The value estimates are given without regard to any questions of title, boundaries, encumbrances, liens or encroachments. It is assumed that all assessments, if any are paid.
4. The Site will be in conformance with the applicable zoning and building ordinances.
5. Information provided by such local sources as governmental agencies, financial institutions, realtors, buyers, sellers, and others was considered in light of its source, and checked by secondary means.
6. If an unforeseen change occurs in the economy, the conclusions herein may no longer be valid.
7. The Development will adhere to the schedule of performance described in the Lease.
8. Both parties are well informed and well advised and each is acting prudently in what he/she considers his/her own best interest.

attachments

TABLE 1

**PROJECT DESCRIPTION
DOWNTOWN HOTEL AND CONFERENCE CENTER
ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**

I. Site Area	2.36 Acres	
II. Gross Building Area		
Hotel Rooms	93,588 SF	79.0%
Meeting Rooms	1,300 SF	1.1%
Restaurant	2,700 SF	2.3%
Lobby/Lounge	5,000 SF	4.2%
Other Common Area/First Floor Circulation/Back of House	<u>15,900 SF</u>	<u>13.4%</u>
Subtotal Gross Building Area (GBA)	118,488 SF	100.0%
Conference Center (Gross SF)	25,000 SF	
III. Number of Rooms		
Number of Guest Rooms	196 Rooms	
Average Room Size - Net SF	477 SF	
Number of Meeting Rooms	2 Rooms	
Number of Floors	7 Floors	
IV. Parking		
<u>Parking Area</u>		
Total Parking Area	78,370 SF	
<u>Parking</u>		
Subterranean Parking	209 Spaces	
Surface Parking at Hotel	<u>11</u> Spaces	
Total Parking Spaces	220 Spaces	
Average SF per Space	356 SF per Space	
Parking Ratio	1.1 Spaces per Room	

TABLE 2

**PROJECTION OF ANNUAL LEASE REVENUE TO CDC
DOWNTOWN HOTEL AND CONFERENCE CENTER
ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**

<u>Lease Year</u> (1)	<u>Operating Year</u>	<u>Base Ground Lease Payment</u>	<u>Additional Rent Above Pro Forma</u>	<u>Total</u>
1	-1	\$0	\$0	\$0
2	0	\$0	\$0	\$0
3	1	\$0	\$0	\$0
4	2	\$0	\$0	\$0
5	3	\$0	\$0	\$0
6	4	\$0	\$0	\$0
7	5	\$0	\$0	\$0
8	6	\$0	\$0	\$0
9	7	\$0	\$0	\$0
10	8	\$0	\$0	\$0
11	9	\$0	\$0	\$0
12	10	\$0	\$0	\$0
13	11	\$206,000	\$159,000	\$365,000
14	12	\$424,000	\$164,000	\$588,000
15	13	\$655,000	\$169,000	\$824,000
16	14	\$900,000	\$174,000	\$1,074,000
17	15	\$1,159,000	\$180,000	\$1,339,000
18	16	\$1,194,000	\$185,000	\$1,379,000
19	17	\$1,229,000	\$190,000	\$1,419,000
20	18	\$1,266,000	\$196,000	\$1,462,000
21	19	\$1,304,000	\$202,000	\$1,506,000
22	20	\$1,343,000	\$208,000	\$1,551,000
23	21	\$1,384,000	\$214,000	\$1,598,000
24	22	\$1,425,000	\$221,000	\$1,646,000
25	23	\$1,468,000	\$227,000	\$1,695,000
26	24	\$1,512,000	\$234,000	\$1,746,000
27	25	\$1,557,000	\$241,000	\$1,798,000
28	26	\$1,604,000	\$248,000	\$1,852,000
29	27	\$1,652,000	\$256,000	\$1,908,000
30	28	\$1,702,000	\$264,000	\$1,966,000
31	29	\$1,753,000	\$272,000	\$2,025,000
32	30	\$1,805,000	\$280,000	\$2,085,000
33	31	\$1,860,000	\$288,000	\$2,148,000
34	32	\$1,915,000	\$297,000	\$2,212,000
35	33	\$1,973,000	\$306,000	\$2,279,000
36	34	\$2,032,000	\$315,000	\$2,347,000
37	35	\$2,093,000	\$324,000	\$2,417,000
38	36	\$2,156,000	\$334,000	\$2,490,000
39	37	\$2,220,000	\$345,000	\$2,565,000
40	38	\$2,287,000	\$354,000	\$2,641,000
41	39	\$2,356,000	\$365,000	\$2,721,000
42	40	\$2,426,000	\$376,000	\$2,802,000
43	41	\$2,499,000	\$387,000	\$2,886,000
44	42	\$2,574,000	\$399,000	\$2,973,000
45	43	\$2,651,000	\$411,000	\$3,062,000
46	44	\$2,731,000	\$423,000	\$3,154,000
47	45	\$2,813,000	\$436,000	\$3,249,000

TABLE 2

**PROJECTION OF ANNUAL LEASE REVENUE TO CDC
DOWNTOWN HOTEL AND CONFERENCE CENTER
ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**

<u>Lease Year</u> (1)	<u>Operating Year</u>	<u>Base Ground Lease Payment</u>	<u>Additional Rent Above Pro Forma</u>	<u>Total</u>
48	46	\$2,897,000	\$449,000	\$3,346,000
49	47	\$2,984,000	\$462,000	\$3,446,000
50	48	\$3,074,000	\$476,000	\$3,550,000
51	49	\$3,166,000	\$490,000	\$3,656,000
52	50	\$3,261,000	\$505,000	\$3,766,000
53	51	\$3,359,000	\$520,000	\$3,879,000
54	52	\$3,459,000	\$536,000	\$3,995,000
55	53	\$3,563,000	\$552,000	\$4,115,000
Present Value Discount Rate		\$6,900,000	\$1,189,000	\$8,090,000
8.0%				

(1) 55-year ground lease, i.e., two years of construction and 53 years of operations.

TABLE 3

COMMERCIAL AND RESIDENTIAL LAND SALES COMPARABLES (1)
DOWNTOWN HOTEL AND CONFERENCE CENTER
ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION

<u>Sale Date</u>	<u>Address</u>	<u>City</u>	<u>Sale Price</u>	<u>Acres</u>	<u>\$/SF Land</u>	<u>Property Description</u>
12/23/2009	1260 W. Valley Parkway	Escondido	\$2,094,545	1.18	\$40.75	Retail/Restaurant
12/23/2008	1755 Citracado	Escondido	\$5,500,000	3.19	\$39.58	Medical
5/15/2008	South Melrose Drive	Vista	\$4,540,000	3.44	\$30.30	Hotel
1/10/2008	139-141 Canyon Drive	Oceanside	\$1,450,000	1.14	\$29.20	Retail
3/10/2008	13010 Poway Road	Poway	\$1,200,000	1.12	\$24.60	Commercial
9/17/2008	439 W. Washington Avenue	Escondido	\$1,137,500	1.09	\$23.96	Condominium
8/7/2008	Old Grove Road @ College Boulevard	Oceanside	\$6,634,000	6.49	\$23.47	Office
9/17/2008	300 Zukor Gin	Escondido	\$4,437,500	4.46	\$22.84	Condominium
12/30/2009	W. San Marcos Boulevard @ Via Vera Cruz	San Marcos	\$3,500,000	3.89	\$20.66	N/A
3/19/2008	Emerald Drive @ Highway 78	Vista	\$800,000	1.12	\$16.40	Retail
12/17/2009	Del Lago Boulevard @ Via Rancho Parkway	Escondido	\$2,700,000	4.37	\$14.18	Hold for investment
		Minimum	\$800,000	1.09	\$14.18	
		Maximum	\$6,634,000	6.49	\$40.75	
		Median	\$2,700,000	3.19	\$23.96	
		Average	\$3,090,322	2.86	\$25.99	

(1) Selected sales transactions for commercial and residential land between 1.0 and 10.0 acres in Escondido, Oceanside (East of I-5), Poway, Rancho Bernardo, San Marcos, and Vista from January 2008 to present.

Source: CoStar Comps

Prepared by: Keyser Marston Associates, Inc.

Filename i: Escondido/Civic Center\Reuse Pro forma - May 2010;6/1/2010;wcl

TABLE 4

**COMMERCIAL BUILDING SALES COMPARABLES ⁽¹⁾
DOWNTOWN HOTEL AND CONFERENCE CENTER
ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**

<u>Sale Date</u>	<u>Address</u>	<u>City</u>	<u>Sale Price</u>	<u>Acres</u>	<u>Building</u>		<u>FAR</u>	<u>Year Built</u>	<u>Property Description</u>
					<u>SF</u>	<u>\$/SF</u>			
7/10/2008	855 W. Mission Avenue	Escondido	\$8,877,000	1.57	22,750	\$390	0.33	1983	Retail
10/7/2008	2067 W. Vista Way	Vista	\$16,600,000	3.49	45,717	\$363	0.30	1986	Office
8/14/2008	338 Via Vera Cruz	San Marcos	\$8,450,000	1.63	27,391	\$308	0.39	1989	Office
9/3/2008	1282 Pacific Oaks Place	Escondido	\$4,850,000	1.12	16,040	\$302	0.33	2007	Office
10/31/2008	390 W. Valley Parkway	Escondido	\$4,436,000	0.22	16,502	\$269	1.72	2004	Retail
6/9/2008	876 N. Broadway	Escondido	\$3,000,000	1.08	12,160	\$247	0.26	2005	Retail
4/13/2010	3605 Vista Way	Oceanside	\$6,635,000	1.25	28,600	\$232	0.53	2008	Office
1/4/2008	952 Postal Way	Vista	\$2,375,000	1.36	17,248	\$138	0.29	1990	Office
12/2/2009	941 E. Valley Parkway	Escondido	\$1,845,000	0.58	14,000	\$132	0.55	1977	Office
12/21/2009	408 Cassidy Street	Oceanside	\$1,262,500	0.49	10,102	\$125	0.47	--	Office
1/23/2009	250-260 S. Orange Street	Escondido	\$2,500,000	1.29	21,455	\$117	0.38	--	Office
2/27/2009	528 N. Broadway	Escondido	\$1,000,000	0.29	10,000	\$100	0.79	--	Retail
6/4/2008	503 Vista Bella	Oceanside	\$1,725,000	1.06	17,580	\$98	0.38	1972	Office
8/29/2008	529 W. 4th Avenue	Escondido	\$2,000,000	1.26	22,663	\$88	0.41	--	Multiple uses
			Minimum	\$1,000,000	0.22	10,000	\$88	0.26	
			Maximum	\$16,600,000	3.49	45,717	\$390	1.72	
			Median	\$2,750,000	1.19	17,414	\$185	0.38	
			Average	\$4,682,536	1.19	20,158	\$208	0.51	

(1) Selected sales transactions for commercial buildings between 10,000 SF and 50,000 SF in Escondido, Oceanside (East of I-5), Poway, Rancho Bernardo, San Marcos, and Vista from January 2008 to present.

TABLE 5

**ESTIMATED DEVELOPMENT COSTS
DOWNTOWN HOTEL AND CONFERENCE CENTER
ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**

<u>Parking Garage</u>	<u>Total</u>	<u>Comments</u>
I. Direct Costs (1)		
Subterranean Parking	\$8,614,489	\$41,218 Per Subterranean Space
On-site Improvements	\$333,360	\$6 Per SF Hotel Site
Surface Parking	\$0	Included Above
FF&E	\$213,000	\$1,019 Per Subterranean Space
Contingency	<u>\$214,535</u>	2.3% of Directs
Total Direct Costs	\$9,375,384	\$42,615 Per Space
II. Indirect Costs		
Total Indirect Costs	\$1,332,991	14.2% of Directs
III. Financing Costs		
Interest During Construction/Loan Fees	<u>\$9,625</u>	0.1% of Directs
IV. Total, Parking Garage	\$10,718,000	\$48,718 Per Space
<u>Hotel/Conference Center</u>		
I. Direct Costs (1)		
Off-Site Improvements	\$270,262	\$5 Per SF Hotel Site
On-Site Improvements	\$1,851,827	\$36 Per SF Hotel Site
Shell Construction - Hotel	\$26,059,548	\$220 Per SF GBA
Conference Center Improvements	\$850,250	\$34 Per SF - Center
FF&E	\$8,070,898	\$41,178 Per Room
Contingency	<u>\$1,609,094</u>	4.3% of Directs
Total Direct Costs	\$38,711,879	\$327 Per SF GBA
		\$197,510 Per Room
II. Indirect Costs		
Total Indirect Costs	\$9,141,045	23.6% of Directs
III. Financing Costs		
Interest During Construction	\$2,562,388	6.6% of Directs
Loan Fees	\$3,665,938	9.5% of Directs
Operating Deficit Reserves	<u>\$5,000,000</u>	12.9% of Directs
Total Financing Costs	\$11,228,326	29.0% of Directs
IV. Total, Hotel/Conference Center	\$59,081,250	\$499 Per SF GBA
Grand Total Development Costs Or Say (Rounded)	\$69,799,250 \$69,799,000	\$589 Per SF GBA

(1) Reflects the payment of prevailing wages.

TABLE 6

**NET OPERATING INCOME
DOWNTOWN HOTEL AND CONFERENCE CENTER
ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**

<u>Stabilized Year (Year 4)</u>			
<u>Net Operating Income</u>			
I. Revenue			
Room Revenue	\$174 ADR	75.0% Occupancy	\$9,337,000
Food & Beverage		69.0% of Room Revenue	\$6,447,000
Telephone Revenue		1.0% of Room Revenue	\$93,000
Parking Revenue		\$130 /Space/Month	\$342,000
Rentals & Other Revenue		\$9.56 /Occupied Room/Year	<u>\$513,000</u>
Total Revenue			\$16,732,000
II. Expenses			
Rooms Expense		24.0% of Room Revenue	(\$2,239,000)
Food & Beverage Expense		72.0% of Food & Beverage	(\$4,642,000)
Telephone Expense		100.0% of Telephone Revenue	(\$93,000)
Parking Expenses		\$932 /Space/Year	(\$205,000)
Other Operated Departments		43.7% of Rentals & Other Revenue	<u>(\$224,000)</u>
Subtotal - Departmental Expenses			(\$7,403,000)
(Less) Overhead Expenses (1)		24.8% of Non-Parking Gross Revenue	(\$4,062,000)
(Less) Fixed Charges (2)		6.8% of Non-Parking Gross Revenue	<u>(\$1,120,000)</u>
Total Expenses		75.2% of Gross Revenue	<u>(\$12,585,000)</u>
III. Net Operating Income (NOI)		24.8% of Gross Revenue	\$4,147,000

(1) Includes general & administrative, utilities, operations & maintenance, marketing, franchise fees, and management fee.

(2) Includes property taxes, insurance, and reserves for replacement.

TABLE 7

**RESIDUAL LAND VALUE
DOWNTOWN HOTEL AND CONFERENCE CENTER
ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**

I. Supportable Private Investment (See Table 8, Section IV)	\$45,300,000
II. Residual Land Value	
Supportable Private Investment	\$45,300,000
(Less) Total Development Costs	<u>(\$69,799,000)</u>
Residual Land Value	(\$24,499,000)

TABLE 8

**PROJECTED CASH FLOW FROM OPERATIONS
DOWNTOWN HOTEL AND CONFERENCE CENTER
ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**

	<u>Year</u>	<u>-1</u>	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
I. Revenue									
Occupancy Percentage				66.0%	72.0%	75.0%	75.0%	75.0%	75.0%
Average Daily Rate (ADR)				\$159	\$164	\$169	\$174	\$179	\$184
Room Revenue				\$7,508,000	\$8,448,000	\$9,069,000	\$9,337,000	\$9,605,000	\$9,873,000
Food & Beverage				\$5,319,000	\$5,877,000	\$6,259,000	\$6,447,000	\$6,640,000	\$6,839,000
Telephone Revenue				\$75,000	\$84,000	\$91,000	\$93,000	\$96,000	\$99,000
Parking Revenue				\$276,000	\$310,000	\$332,000	\$342,000	\$352,000	\$363,000
Rentals & Other Revenue				<u>\$414,000</u>	<u>\$465,000</u>	<u>\$498,000</u>	<u>\$513,000</u>	<u>\$528,000</u>	<u>\$544,000</u>
Gross Revenue				\$13,592,000	\$15,184,000	\$16,249,000	\$16,732,000	\$17,221,000	\$17,718,000
II. Expenses									
(Less) Departmental Expenses				(\$6,343,000)	(\$6,830,000)	(\$7,187,000)	(\$7,403,000)	(\$7,626,000)	(\$7,855,000)
(Less) Overhead Expenses				(\$3,383,000)	(\$3,700,000)	(\$3,943,000)	(\$4,062,000)	(\$4,184,000)	(\$4,307,000)
(Less) Fixed Expenses				<u>(\$697,000)</u>	<u>(\$895,000)</u>	<u>(\$1,091,000)</u>	<u>(\$1,120,000)</u>	<u>(\$1,148,000)</u>	<u>(\$1,354,000)</u>
Total Operating Expenses				(\$10,423,000)	(\$11,425,000)	(\$12,221,000)	(\$12,585,000)	(\$12,958,000)	(\$13,516,000)
III. Net Operating Income (NOI)									
				\$3,169,000	\$3,759,000	\$4,028,000	\$4,147,000	\$4,263,000	\$4,202,000
Add: Construction Interest Reserve	\$1,024,955	\$1,537,433	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Add: Operating Deficit Reserve	\$0	\$0	\$1,250,000	\$1,250,000	\$1,250,000	\$1,250,000	\$0	\$0	\$0
Add: Operating Deficit Reserve Interest	<u>\$0</u>	<u>\$0</u>	<u>\$150,000</u>	<u>\$112,500</u>	<u>\$75,000</u>	<u>\$37,500</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Adjusted Net Operating Income	\$1,024,955	\$1,537,433	\$4,569,000	\$5,121,500	\$5,353,000	\$5,434,500	\$4,263,000	\$4,202,000	
IV. Supportable Private Investment	\$45,300,000	(\$27,180,000)	(\$18,120,000)	\$0	\$0	\$0	\$0	\$0	\$0
V. Sale of Project									
Gross Sales Proceeds									\$44,232,000
(Less) Cost of Sale	3.0%								<u>(\$1,327,000)</u>
Net Sales Proceeds									\$42,905,000
VI. Net Project Cash Flow/Sales Proceeds to Developer									
		(\$26,155,045)	(\$16,582,567)	\$4,569,000	\$5,121,500	\$5,353,000	\$5,434,500	\$4,263,000	\$47,107,000
Target Unleveraged Internal Rate of Return (IRR)	10.0%								

Project Sales Proceeds	
NOI - Year 6	\$4,202,000
Capitalization Rate	9.5%
Year 6 Sales Price	\$44,232,000