

EXHIBIT D

**APPLICANT'S ECONOMIC
FEASIBILITY LETTER**



DAVID MALMUTH
DEVELOPMENT, LLC

CREATING ART-INSPIRED PLACES THAT TRANSFORM COMMUNITIES

April 25, 2011

Mr. Craig Chalfant
Planner
Long Beach Development Services/Planning Bureau
333 W. Ocean Blvd., 5th Floor
Long Beach, CA 90802
Email: craig.chalfant@longbeach.gov

RE: Economic Feasibility of the Project Alternatives in the RDEIR for the second+pch project in Long Beach, CA

Dear Mr. Chalfant:

On behalf of the development team, I'm providing this letter concerning the economics of the alternatives provided in the RDEIR for the second+pch project. This information should be considered part of the administrative record, but it is not intended as a comment on the RDEIR. Accordingly, we are not expecting a formal response to this information in the Final EIR.

Now that we have had an opportunity to review the alternatives in detail, we'd like to provide our perspective on the economic implications of reducing the revenue producing components of the project, i.e., the retail space and the residential units, on the overall financial returns. We stress that this consideration of the financial returns produced by the project for its investors is critical to evaluating project feasibility. Simply put, if the project is not able to produce market viable risk-adjusted returns (i.e., returns commensurate with real estate development risk) then it will not be able to attract the equity funding necessary for development.

We have done extensive financial modeling on the project, including a full conceptual estimate completed by a contractor, Bernards, who is both very familiar with and has recent experience with this product type (general contractor for Americana at Brand in Glendale). We have utilized base assumptions on the revenue side which reflect the most recent market conditions, and then we have projected conservative increases in rent and sales prices going forward. If necessary, we are prepared to provide relevant information to the City and its financial consultants for consideration.

First, let us describe the basic financial structure of the project. The Proposed Project, at a total cost of approximately \$360 million, achieves economic viability by providing sufficient revenue producing uses, primarily the residential and retail spaces, to offset the high costs associated with below-grade parking (including expensive remediation and permanent dewatering), high-

quality design and finishes, extensive on-site landscaping and public pier, public art, offsite mitigations, etc. In addition, we have proposed providing several cultural amenities – Coastal Science Center and 99-seat Theater for Cal Rep – which will be managed and maintained by CSULB. These uses, while highly desirable from a community perspective, do not produce direct revenue for the developer.

The most valuable economic component of the project, by far, is the residential. In particular, the upper floors of the signature mid-rise building produce a disproportionate amount of economic benefit. Why is that? The increase in sales price is approximately 10-15% per floor, due to enhanced views (and prestige), while the building costs per floor remain relatively unchanged. Also, sales results in markets where there is a constrained supply of luxury view units (such as the east side of Long Beach) suggest that the largest units on the highest floors will sell first. So, the highest floors produce the greatest revenue and enable us to provide amenities that enhance the overall project. Also, going up, versus out, allows us to maintain more open space.

Retail is the second most valuable use. A high-quality retail mix produces good returns in its own right and also enhances the value of the residential. Since the project is mixed-use, the success of the retail is paramount to the success of the overall project. We designed it from “the retail up” with extensive input from retail experts. We were told then, and it has been confirmed since, by our brokers at CBRE and prospective tenants, that we need a minimum amount of retail and restaurant space in order to maintain viability and allow for desired co-tenancies. This minimum “critical mass” of retail+restaurants is about 175,000 square feet and results from the need, expressed by both tenants and customers, to have enough diversity and depth in the retail offering to be a compelling draw on an ongoing basis. Falling below this threshold makes it difficult to produce a differentiated retail place that will complement and support the surrounding centers and Naples/Belmont Shore retail.

The hotel, while a clear benefit to the project and the community, does not produce significant economic value for the developers – even assuming that we can achieve our pro forma rate and occupancy assumptions. The fundamental problem, as is well-documented by a PKF study that analyzed hotel feasibility at this site (which we will provide on request), is that this is not a strong hotel location. The primary generators of demand for business travel, i.e., office and convention uses, are all located downtown where there is a sufficient supply of rooms. The corner of 2nd St and PCH is not a resort destination. There is demand from CSULB and several other small demand generators, we will develop some meeting/social business, and the hotel is bolstered by the mixed-use environment, but we need to be the hotel of choice for friends and family visiting the east side of town in order to be viable. We are working with a high-quality operator, Joie de Vivre, so this boutique positioning is achievable; but, at 100 keys, the hotel is about break even from a financial perspective.

With that context, let’s move to our assessment of the alternatives. Alternative 1 – No Project/No Development does not require any discussion. Alternative 2 – No Project/Existing Zoning envisions an all retail development of 646,000 square feet with 70% lot coverage and 30% open space. While this plan would be consistent with the existing SEADIP zoning, and perhaps economically viable if it did not include any amenities (as shown in Table V-1), it would produce “more of the same” generic big box space and likely would cannibalize surrounding

centers. It would also be totally inconsistent with our project objectives and not beneficial to the community – apart from the potential to generate significant sales tax revenue to the city. The negative traffic impacts – 2.5x-3x the Proposed Project – coupled with limited ability to create a distinctive design statement also makes this an unattractive option for reasons beyond economic viability.

Alternative 3 – Reduced Intensity Alternative A describes a project with 275 residential units (15% reduction from the Proposed), 155,000 square feet of retail (20% reduction from the Proposed) and eliminates the 99-seat Theater from the mix. It does maintain the 12-story residential building, so the loss of units would come from the other, less profitable, residential components. While the overall revenue loss is substantial, it is largely offset by the elimination of the Theater which is costly and does not generate any direct revenue for the developers. Also, the reduction of 20% retail still leaves a total of 175,000 square feet of retail+restaurants – the minimum requirement. Economic viability could potentially be maintained by this alternative but the loss of the Theater, which we regard as an important community amenity, renders it less attractive, from our perspective, than the Proposed Project. Finally, the reduction in square footage will also reduce the incremental sales and property taxes produced by the project for the city.

Alternative 4 – Reduced Intensity Alternative B further reduces the residential units to 215 (33% reduction from the Proposed), reduces the retail to 125,000 square feet (35% reduction from the proposed), and eliminates the Theater. Since this alternative imposes a maximum building height of 82 feet (6 stories), the incremental loss of 60 units (Alternative 3 -275 to Alternative 4 215) would likely come from the mid-rise building. As described earlier, this reduction has a severe negative impact on project economics. Coupled with the reduction in retail, our initial calculations indicate that the overall drop in return on equity for this alternative is approximately 300 basis points vs. the Proposed Project. Also, the additional retail reduction now leaves us with 145,000 square feet of retail+restaurants – far below what the retail experts tell us is needed to create a viable mix of sustainable, high-quality tenants. These two factors, low returns and inadequate retail square footage, make this alternative economically infeasible.

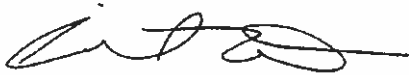
Alternatives 5 and 6, or Reduced Intensity Alternatives C and D, only exacerbate the economic and critical mass problems described above. Since the residential units are the most significant contributor to economic value, reducing the total to 100 (Alternative 5) or Zero (Alternative 6) are alone sufficient, without even discussing the retail reduction, to render the project infeasible. While both maintain the hotel at 100 keys, as do the alternatives above, the hotel does not produce significant economic value as described earlier. Thus, from a development standpoint it is not financially feasible.

Our team has invested well over three years, and millions of dollars, in fashioning a project that can become a highly-valued, successful addition to the community. During this period, we have conducted extensive community outreach including hundreds of meetings with thousands of participants. They told us, among other things, that they want a beautiful project that all of us can enjoy and be proud of. We have listened to our neighbors and crafted a project which is not only beautiful but also achieves balance between providing new and desirable amenities, maintaining economic sustainability, and minimizing negative impacts. The second+pch

project, as proposed, achieves that balance and as a result, enjoys the support of a significant majority of Long Beach residents.

We appreciate this opportunity to provide economic information for the City's consideration. If necessary, we can share additional detail with the City during the ongoing administrative process.

Sincerely,



David Malmuth
President
David Malmuth Development, LLC