Queen Mary Lease Amendment Analysis

Draft Assessment and Proposal

The Economics of Land Use

Prepared for:

Garrison Investment Group

Prepared by:

Economic & Planning Systems, Inc.

Economic & Planning Systems, Inc.
949 South Hope Street, Suite 103
Los Angeles, CA 90015-1454
213 489 3808 tel
213 489 3881 fax

Berkeley
Denver
Los Angeles
Sacramento

www.epsys.com

April 18, 2013, Revised June 12, 2013

EPS #124029

Table of Contents

List of Tables

1. INTRODUCTION AND SUMMARY OF FINDINGS

Background and Purpose of Analysis

The RMS Queen Mary, the world's most glamorous ocean liner during its prime, is an enduring symbol of the City of Long Beach and its maritime heritage. Since the City acquired and converted the Queen Mary into a hotel and museum in 1967, the art deco liner has become a preeminent tourist attraction, drawing over 1.5 million visitors annually and providing a unique source of pride for the City of Long Beach and its residents.

The underlying leasehold[1] for the property was originally intended to ensure the continuous operation of Queen Mary and provide for adjacent development. The lease includes several associated elements, most notably operating rights and maintenance obligations for the permanently docked ship, which houses a 365-room hotel, several restaurants, and more than 100,000 square feet of exhibition and event space. In addition, there are 20 waterside acres (of which 11.5 are developable), 22 developable acres on the shore side currently used as parking lots, and sub-leases for the Carnival Cruise Wharf and a Long Beach City Park. Site improvements include a 1,300-space structured parking facility and the "Dome," which once housed Howard Hughes's "Spruce Goose." The 66-year ground lease commenced August 1, 1995 and includes a multi-phase development plan backed by a full adopted EIR. While numerous leaseholders over the years have maintained the Queen Mary as a tourist destination, hotel, and historical asset, none have fully tapped the development potential of the site.

The current operator, Garrison Investment Group, assumed operating control of the ground lease in 2009 when the primary leaseholder defaulted on the mezzanine loan Garrison had made to it. The senior loan on the leasehold held by iStar Financial Group matured in May 2013. Garrison, which intends to dispose of the leasehold to a developer, has made considerable investment in upkeep and operations and has fully satisfied its operating and custodial obligations. But despite improving operating performance of the Queen Mary, the 22 shore-side acres are—by general agreement between Garrison and the City of Long Beach—prohibitively difficult to develop under the terms of the master ground lease.

The lease presents several marketing challenges for potential developers and underwriters, including a dated development plan, a complicated percentage ground rent structure, and a singular non-separable lease that restricts sub-leasing and obligates the lessee to operate the Queen Mary. Tideland Trust restrictions impose a further impediment, as the entire property is subject to restrictions that limit development to uses that are specifically maritime or broadly related to water access.

Garrison has begun a conversation with the City of Long Beach about modifying the lease. The City of Long Beach will consider such modification "only to the extent that it can be assured of continued income and continued commitment to the successful operation and maintenance of the

[1] *First Amended Lease and Operations Agreement of Queen Mary, Adjacent Lands and Improvements, Dome and Queen's marketplace.*

Queen Mary. If there is to be a modification of percentage rent, then new terms must provide for commitment to continued operation and maintenance of the Queen Mary, and to continued reinvestment and historic preservation of the Queen Mary, which is currently being accounted for and accomplished partly through offset to percentage rent."[2]

Specifically, the City[3] has asked Garrison to address the following items to provide a basis for negotiation:

1. What are the likely uses of the shoreside property?
2. What kind of ground rent will they generate using current market competitive ground rent terms?
3. What level of separability will be required as a modification to the current ground lease?
4. What other terms in the lease are to be modified?
5. In what manner will the City be assured of continued commitment and reinvestment in the Queen Mary with separated leases?
6. What is a likely timeline for development, including the designation of the point at which Garrison will identify and bring to the City for approval a replacement Lessee who will commit to and undertake active development?

To accomplish these objectives, the City[4] has asked Garrison to provide the following:

- An illustrative development plan the object of which is to establish coarse feasibility and likely general magnitude of ground rent
- An outline of specific lease terms and a projection of ground rent under those lease terms
- An explicit program and narrative for continued maintenance, reinvestment (including historic preservation) and ongoing operating commitment for the Queen Mary

The following document summarizes the illustrative development program and the market analysis underlying it, provides pro forma financial analysis of prospective land side development and Queen Mary operations, estimates lease revenues under existing and proposed terms, and sets forth recommendations on amendments to the lease. This information and the detailed back-up data and analysis will inform discussions between Garrison and the City and are intended to provide a basis for expeditious amendment of the lease terms.

[2] Paraphrased from *Modification of Queen Mary Lease Outline Approved* dated October 2, 2012

[3] Ibid.

[4] Ibid.

Approach and Methodology

EPS conducted a market analysis to determine prospective uses. Working with local planners Studio 111 and marina consultants The Corrough Consulting Group (TCCG), EPS developed a schematic land use plan. Pro formas were developed for all proposed uses and for continued operation of the Queen Mary with assistance Garrison Investment Group and the property management firm for the Queen Mary, Evolution Hospitality, to test the feasibility of new uses, to assess the operational characteristics of the Queen Mary, and to evaluate alternative lease structures.

Summary of Key Findings

- Land side development is challenging. There is limited market support for typical land uses, because the property is geographically isolated, physically constrained, and checked by Tidelands Trust development restrictions. Furthermore, while the Queen Mary is a powerful draw, its elevated waterside situation does not allow easy coordination with other uses. However, there appears to be a strong opportunity for development of a yacht marina and complementary opportunities for a boutique hotel, multifamily residential, and support retail.

- Queen Mary operations are complex and depend on a variety of revenue sources, including parking and event revenues generated on the land side portion of the site and sublease revenues from Carnival Cruise Lines. Furthermore, there is a tension between current Queen Mary revenue sources and future land side development, as vertical improvements will displace Queen Mary surface parking used to generate revenues from event programming.

- Existing rent formulae place an onerous financial burden on development and Queen Mary operations, and do not take into account any measures to safeguard operating returns or development feasibility.

- The existing lease needs a thorough redrafting to modify rent formulae, simplify lease terms, and eliminate obsolete references to phases, triggers and other performance standards.

- A new rent structure that includes a base rent for Queen Mary operations, and a participation structure that links rent payments to project performance for the Queen Mary and to residual land value for new development would reduce development risk and the potential for operational failure

- The ability to separate land side parcels through sublease or assignment, with a new 66-year term at commencement, will enhance the finance-ability and feasibility of side development.

- These changes are likely to make assumption of the lease hold by a qualified developer/operator much more attractive than under current lease terms.

- More refinement of rent formulae and other lease terms will be necessary and will best be done in collaboration with the City.

2. LAND SIDE DEVELOPMENT POTENTIAL AND ILLUSTRATIVE LAND USE PROGRAM

Site Description

The Queen Mary leasehold[5] includes multiple elements intended to ensure the continuous operation of the Queen Mary vessel and provide for adjacent development. The total Queen Mary site encompasses 43 land-side acres and 20 shore-side acres and includes both land-side and shore-side improvements, much of which is covered by surface parking. Current uses are detailed below.

- The **Queen Mary** hosts a 356-room hotel (with potential for 365 rooms) with three restaurants, three snack bars, two wedding locations, 44,000 square feet of meeting space, an exhibit hall with 50,000 square feet of space, and extensive open deck space. In addition, according to the property manager, there are vast quantities of additional space within the former boiler rooms of the ship that could be creatively improved for other uses. The Queen occupies 9.7 acres of water-side area and is surrounded by a rock enclosure. The rock enclosure could potentially be improved for pedestrian access.

- The Queen Mary controls approximately **43 shore-side acres of land**, which is striped for 1,600 surface parking spaces providing parking for the Queen Mary (day visitors, hotel guests, and site staff), for Catalina Classic Cruises, and for a vigorous program of entertainment programming (both as a program location and for attendee parking). The land also hosts the "Queen Mary Marketplace," a dilapidated and largely unused retail space constructed by a prior leaseholder. The parking area includes approximately 750 feet of underutilized shore frontage between the Queen Mary rock enclosure and the Events Park. This parking area represents the primary land-side opportunity for future development of the Queen Mary site. However, the parking area currently generates significant parking and event programming income, so potential future uses must be weighed carefully against the opportunity costs of converting it.

- There are **11.5 acres of water-side development** rights in the cove between the rock enclosure at the bow side of the Queen Mary and the outermost point of the Queen Mary Events Park. This area is naturally protected from weather and could support an expansion of marina-like activities.

- The **"Stinger" submarine** is located within the Queen Mary rock enclosure. The Stinger is a tourist attraction that operates on a ground lease. The submarine contributes minimally to Queen Mary profitability, and its removal from the site should be considered if replacement uses justify moving costs.

[5] *First Amended Lease and Operations Agreement of Queen Mary, Adjacent Lands and Improvements, Dome and Queen's marketplace (10/29/1998)*

- The **"Dome,"** a former hangar covering 135,000 square feet that once housed Howard Hughes's "Spruce Goose," is used as a terminal for Carnival Cruise lines (60 percent of the Dome area) and as a site for staging special entertainment events (40 percent). According to hotel management, events that currently use the Dome could be staged elsewhere on the Queen Mary site should the Dome be deployed for different uses.
- **Carnival Cruise Lines** maintains a cruise ship pier with service facilities, a 1,300-space structured parking facility, 60 percent of the Dome as a passenger terminal, and approximately 14 acres of surrounding land. The operator runs approximately three ships per week sequentially from the facility, with between 1,500 and 2,000 guests boarding and disembarking each trip. The operator has invested heavily in on-site investments, which effectively makes the site unavailable for alternative near-term development through the length of the sub-lease, which runs concurrently with the master lease through July of 2061.
- The **Queen Mary Events Park**, a four-acre oceanfront green space located at the northern end of the site, is included in the Queen Mary ground lease and intended as a location for outdoor special events. Twelve events over 15 days are currently scheduled in the Events Park for 2013, including the Shoreline Jam Musical Festival, Groovefest Music Festival, and the Queen Mary Scot's fest. There is strong potential to increase the value that the Events Park contributes to the ground lease through expanded programming.
- **Catalina Channel Express** operates two charter tour boats at a landing next to the Queen Mary. The operator's sublease is currently being renewed on a year-to-year basis, and because it generates a relatively small amount of income, the use could potentially be moved or terminated to allow higher-value uses for the shoreline area.
- **Island Express Helicopters** provides charter helicopter tours to Catalina Island and along the California coast from a helipad it leases at the south east edge of the Queen Mary site. While the lessee generates a small amount of income for the Master Lease, it is an efficient land use that occupies an otherwise isolated parcel. Furthermore, Island Express can provide a useful complement to potential future hotel and marina developments on site. The operator's sublease runs through July 2025.

Market Analysis for Land Side Development

The consulting team conducted a market analysis to assess the conditions influencing the development potential for the Queen Mary Site. This included contributions from TCCG for marina assessment and Studio 111 Architects for site opportunities and constraints. The resulting analysis provided a foundation for development program Scenarios 1 and 2 featuring a big boat marina, a luxury hotel, ancillary retail, and market-rate multifamily housing. In addition, the market findings suggested a need for enhanced public infrastructure to support and integrate the proposed public uses, including: a waterfront promenade, an improved events-staging area, a central plaza/park, and connective road circulation.

One key finding influencing development potential for the site concerns existing surface parking and how it contributes to Queen Mary operations. In its current operating model, the Queen Mary relies heavily on ancillary revenues from event programming, which contributes an average daily operating profit of nearly $32,000 over a 106-day schedule (per the Draft 2013 budget). But as this programming depends to an extent on freely available surface parking on site, future vertical development displacing surface parking will reduce event revenues and profitability. Ultimately, an optimized development program for the Queen Mary site will have to balance vertical land development and event programming.

Highlights from the market study are discussed below. For the full Market Report, see **Appendix A.**

- **Yacht Marina.** There is strong demand for west coast marina berths for large private vessels (defined here as greater than 80 feet) due to the growing number of such vessels worldwide and a limited number of destinations with facilities capable of accommodating them. Large vessel marina supply is expected to remain constrained because there are very few marina-compatible sites available for new development, and regulatory and political considerations severely limit the ability of existing marinas to consolidate small slips into large berths. The cove between the Events Park and the Queen Mary bow could physically and operationally support up to 14 large vessels, in addition to the existing Catalina Cruise Lines facility. Such a marina development could generate strong returns, based on current global market rates and typical operating costs. Furthermore, a large vessel marina would use a minimal amount of shore-side land, due to low parking requirements and the modest land requirements of the marina servicing facility. A large-vessel marina at the Queen Mary site would likely serve as a stop-over point for visitors or a home berth for regional residents, and thus would not likely generate significant spill-over demand for other on-site uses such as retail or hotel. However, it could enhance the ambience of the overall site, provide an additional attraction for site visitors, and help induce additional land development.

- **Luxury/Boutique Hotel**. Despite general interest in the Queen Mary as an attraction, the ship's small state rooms and lack of amenities restricts its market potential. A new small hotel with modern rooms and luxury amenities such as a health club and day spa could attract another demographic group to the site and increase its share of the business conferencing market without cannibalizing core Queen Mary hotel revenues. Market factors for an onsite hotel are generally favorable, as average Southern California REVPAR rates for Tier 1 and waterside destination hotels have recovered fully since the recession and have, in fact, been setting new records. A general lack of pipeline supply, and the fact that Los Angeles County has a limited number of waterfront conferencing hotels, strengthens the case for this use.

- **Multifamily Residential.** Residential development represents a challenging but potentially viable use for the Queen Mary site. The case for suitability rests on the argument that the site's views, uniqueness, and proximity to the Queen Mary offer a special and exclusive location for a creative residential development, outweighing the challenges represented by the site's lack of supporting amenities and perceived isolation. Downtown Long Beach is believed to have strong long-term residential development potential due to its coastal location, accessibility, and proximity to job centers. Current and past market indicators suggest that condominium prices of $500 per square foot or higher are supportable and rental rates as high as $3.35 per square foot are possible. The risks associated with residential development on the site can possibly be mitigated by good design and a highly differentiated product. Tidelands Trust restrictions apply to the site and technically bar this use, but a strong case for residential development could justify pursuing a swap with the help of the City of Long Beach to trade for the necessary land use rights.

- **Retail.** Major retail development is not a promising option for the Queen Mary site, given the physical constraints and trade area limitations resulting from the waterside port-adjacent location and relatively small developable area. The water-side and port-adjacent location means there are very few residents within the one-mile radius of the site and insufficient population density within a five-mile radius. Carnival Cruise lines brings approximately 275,000 people to the site per year, but cruise customers generate very little retail demand as they typically don't stay on site before or after a cruise. Consequently, major retail opportunities are limited to "destination"-style schemes, which operate at a scale that exceeds the site's developable land area. In addition to the site's physical constraints, there is significant retail competition at nearby, less-isolated sites such as the Pike at Rainbow Harbor and a revitalizing Downtown Long Beach. However, a small amount of ancillary retail providing services for visitors and residents should be supportable.

- **Public Open Space.** The Queen Mary is the only great "place" on the site, which leaves few options for visitor experience[6]. Another welcoming land-side "place" could provide an alternative draw and elevate the site's status as a destination. Some possible options include a promenade that runs from the Events Park, passes along the stretch of shoreline north of the Queen Mary, continues parallel to the port side of the Queen Mary, and terminates at the Dome, connects all site attractions. The rock enclosure surrounding the Queen Mary, if improved for pedestrian access, could provide additional spectacular public space. However, because the revenue potential of such improvements may be limited, they must be justified as directly stimulating additional land-side development and site programming.

- **Non-Market-Supported Uses**. Earlier holders of the Queen Mary lease envisioned but never succeeded in developing large-scale destination-oriented **"themed" entertainment** on the site. Most themed entertainment options are inefficient land users, as they require a large quantity of horizontal area for attractions and parking, and the available land area on the Queen Mary site is too small to support such uses. Furthermore, there is intense competition from other themed entertainment options within the larger trade area, including Disneyland Resorts, Universal Studios, the Santa Monica Pier, and the Pike in Downtown Long Beach. Finally, very few entertainment operators have the resources, creativity, and risk tolerance to attempt theme park development on the Queen Mary site, the most notable example of which—Disney—has already tried.

  Downtown Long Beach is not a strong **office** market in general, and the Queen Mary site has several disadvantages that make office development a poor option. Office tenants prefer to cluster in office districts and value nearby options for shopping and entertainment, and in this respect, the site must compete with the walkable amenities and transit options that surround the office towers in Downtown Long Beach's primary office area. Furthermore, the Long Beach downtown office market has been static for some time: lease rates are low, vacancy rates are high, and no new office buildings have been constructed since 1996.

[6] Excluding special event days, when visitor-serving activities are staged in many areas off-ship.

Program Scenarios

The consulting team drew upon the market and site analyses to develop three conceptual scenarios representing a feasible range of development options for the Queen Mary site. As each scenario is compatible with the prior scenario, they may also function as sequential phases. In addition, each proposed use provides its own parking, adding further phasing flexibility.

- The **Baseline Scenario** reflects the existing Queen Mary operating condition. It includes Queen Mary operations, event programming, and revenues from the Carnival Cruise, Catalina Channel Express, and the Island Express helicopter sub-leases.
- **Scenario 1** improves the shoreline stretch from the Events Park in the north to the Dome in the south with private and public improvements. A 14-berth mega-yacht marina, supported by a land-based facility, fills the cove between the park and the bow of the Queen. A 150-room boutique hotel occupies a spot directly next to the Queen Mary. Fifteen-thousand square feet of ancillary retail completes the private program. Scenario 1 also includes public infrastructure intended to connect uses and provide walking opportunities and a sense of "place." These include a shoreline promenade, improved outdoor events area, road circulation, and a central park/pavilion. Scenario 1 also absorbs a portion of the Queen Mary parking field, reducing Queen Mary parking from 1,600 to 1,171.
- **Scenario 2** completes the land-side development potential of the site by in-filling the surface parking area behind the hotel and marina facility with 370 residential podium-parked units. This further reduces available surface parking for the Queen Mary from 1,171 to 370.

For a breakdown of program elements see **Table 1**. For plan-view drawing of Scenarios 1 and 2, see **Figure 1** through **Figure 4**.

Table 1 Development Program Alternatives

	Baseline		Partial Build-Out (Scenario 1)(2)					Full Build-Out (Scenario 2)(3)					
Proposed Uses	Total Sq.Ft.	Parking Spaces(1)	Total Sq.Ft.	Retail Sq.Ft.	Hotel Keys	Marina Berths	Parking Spaces(1)	Total Sq.Ft.	Retail Sq.Ft.	Hotel Keys	Marina Berths	Res Units	Parking Spaces(1)
Vertical Construction on Development Pads													
Boutique Hotel			128,640		150		150	128,640		150			150
Marina Support Facility			30,974			14	156	30,974			14		156
Ancillary Retail			15,390	15,390				15,390	15,390				
Residential								434,090				370	740
Total New Vertical			175,004	15,390	150	14		609,094	15,390	150	14	370	
Horizontal Site Improvements													
Surface Parking (4)	664,447	1,670	475,456				900						370
Events Area (Parkable)	105,280	40	109,201				291	109,201					291
Park and Pavilion			15,686					15,686					
Circulation (5)	202,854		91,471					215,731					
Plaza			66,577					69,675					0
Total Site Improvements	972,581		758,391					410,293					
Total Parking		1,710					1,497						1,707

(1) Does not include 1,400 dedicated parking spaces in Carnival Cruise structure; all parking calculated at 375 Sq.Ft./space
(2) Adds Marina, Hotel, and Retail uses, and public amenities including surface parking, park/pavilion, pedestrian plaza, and a parkable events area
(3) Adds Marina, Hotel, Retail and Residential uses, and public amenities including a park/pavilion, pedestrian plaza, and a parkable events area
(4) Excludes dedicated parking spaces for specific uses (i.e. surface parking associated with the hotel, or existing events space); only includes "public" parking.
(5) Circulation includes roads not sidewalks. Does not include helipad area or part of Carnival Cruise Lease & Parking

Source: Studio 111, Economic & Planning Systems

Figure 1 Scenario 1: Site Areas

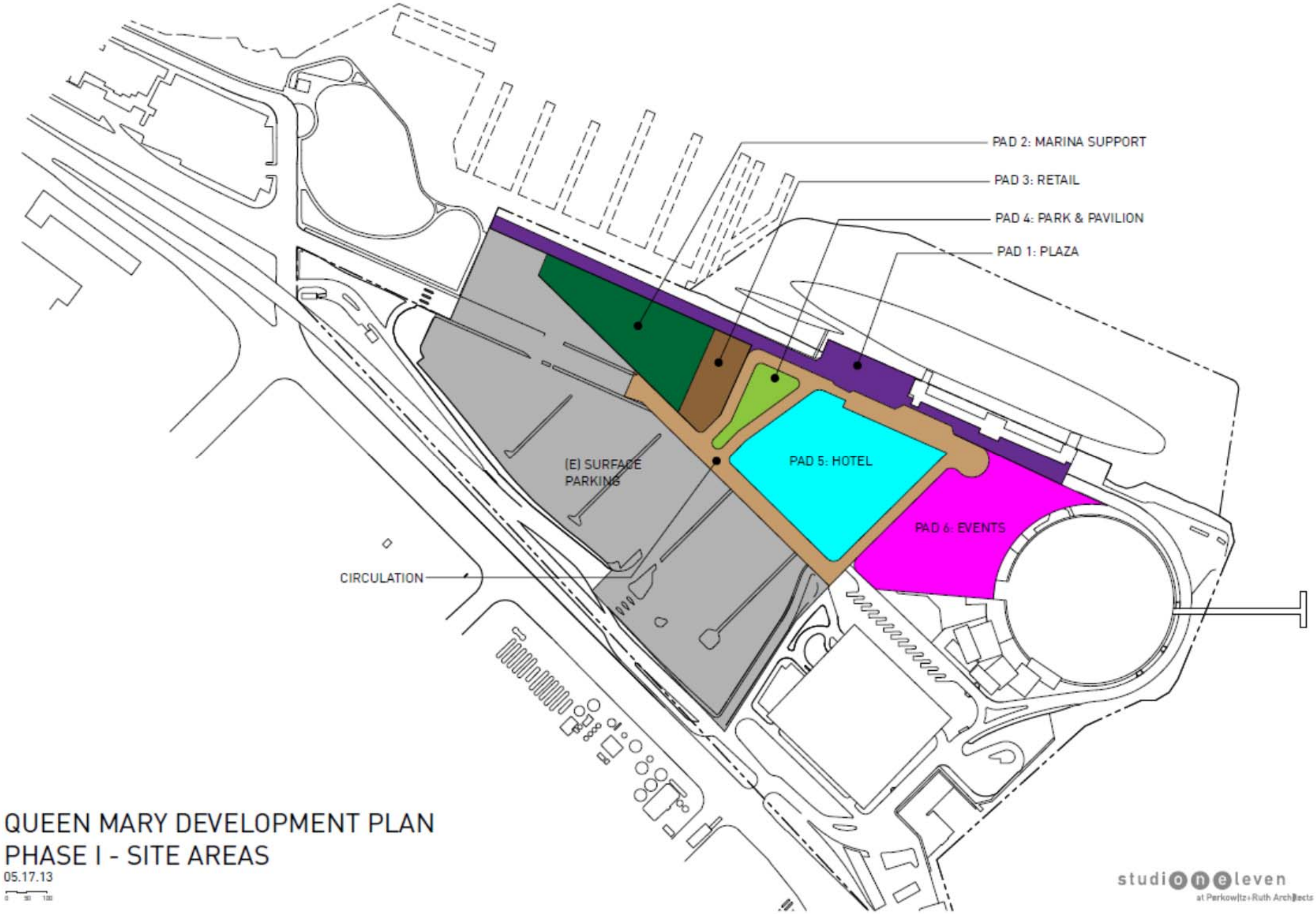


Figure 2 Scenario 1: Buildings and Structures

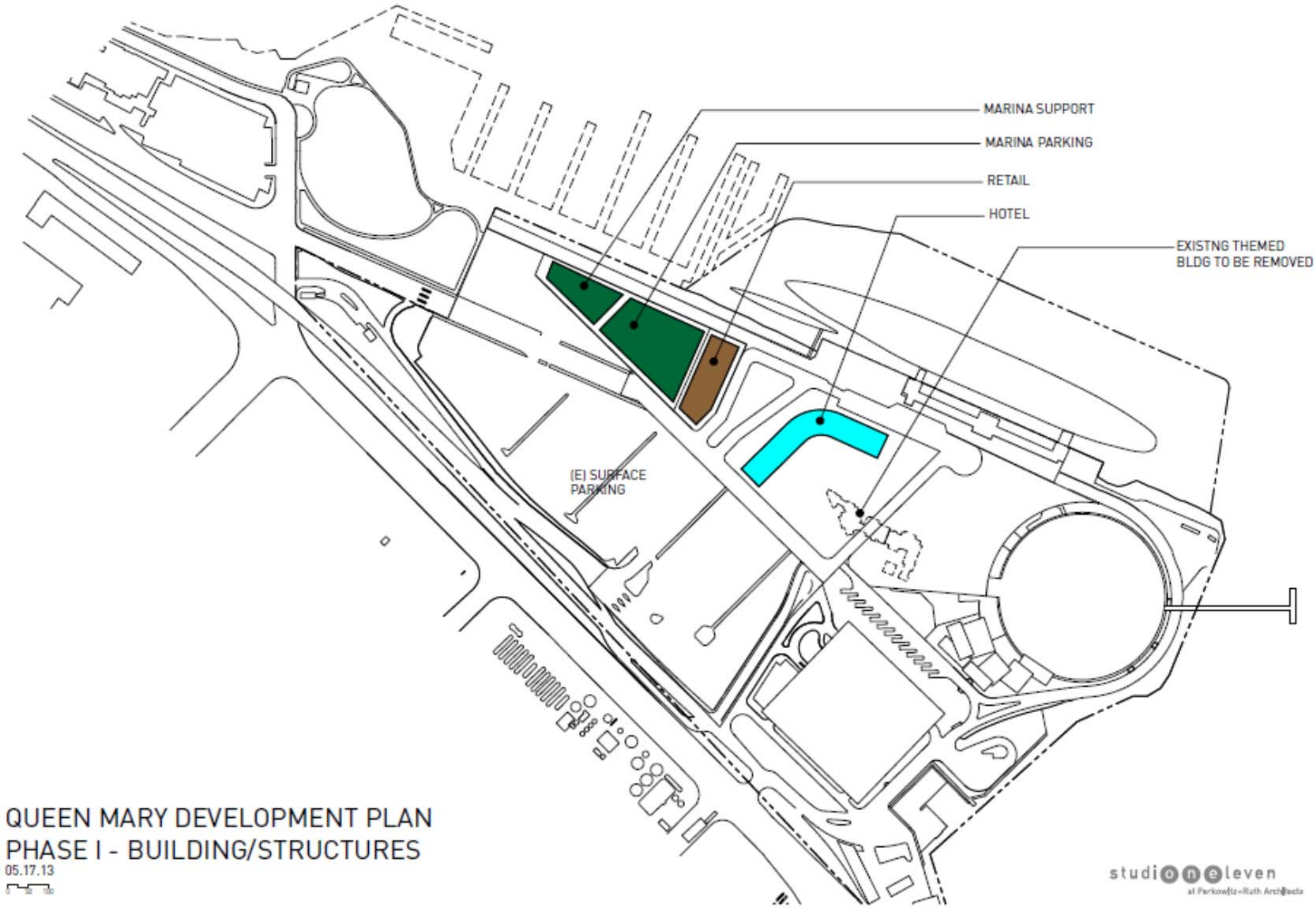


Figure 3 Scenario 2: Site Areas

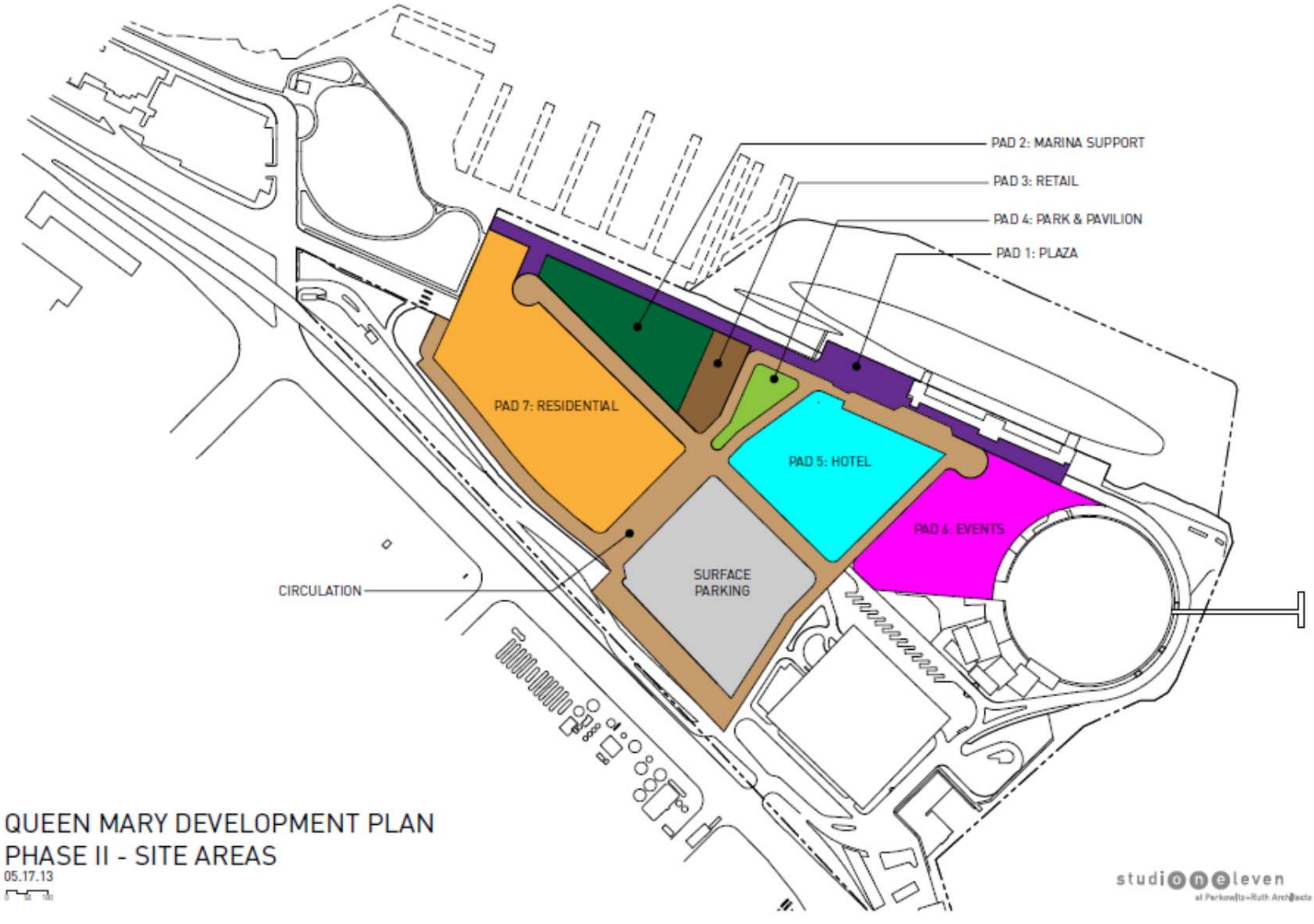
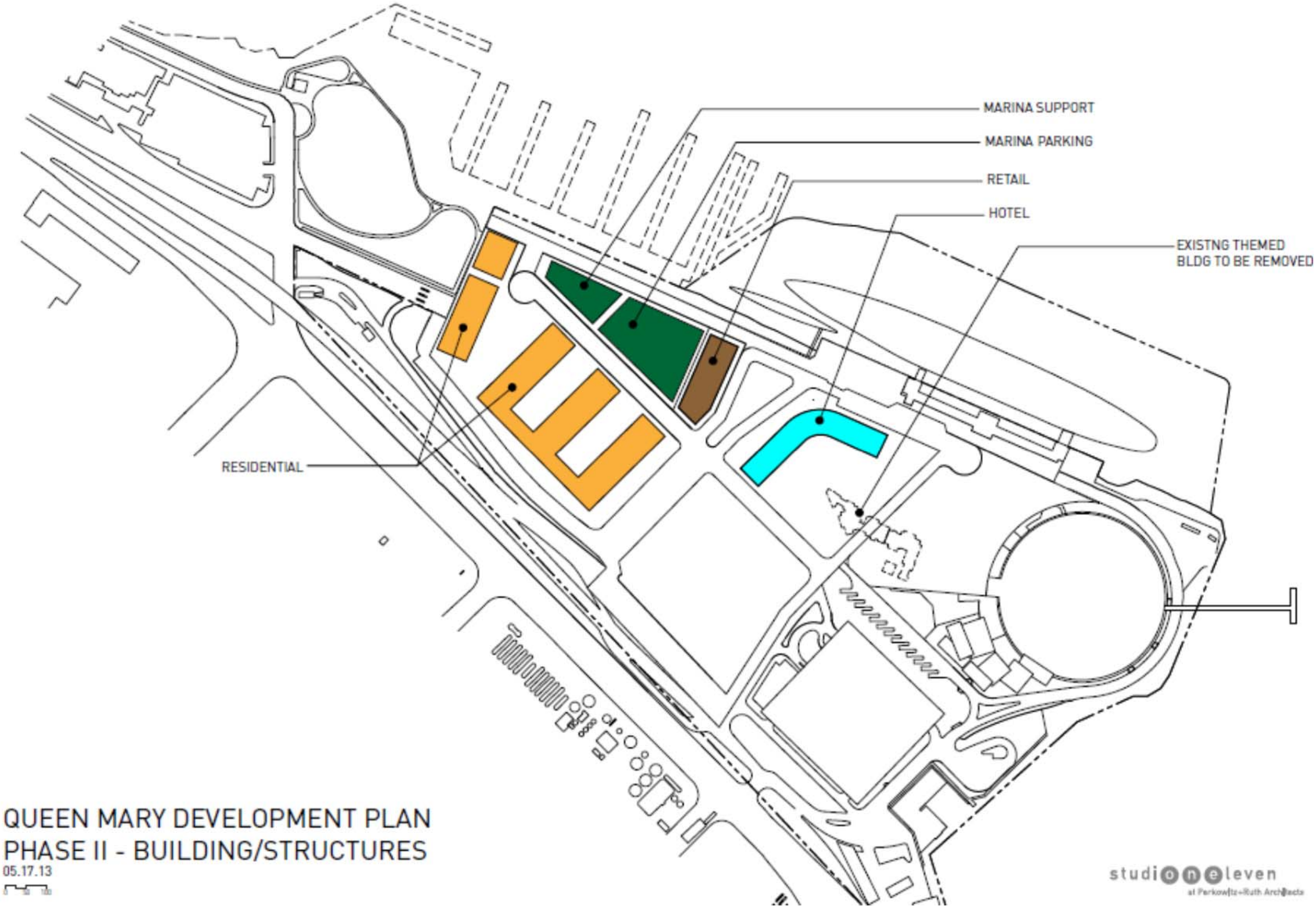


Figure 4 Scenario 2: Buildings and Structures



3. *Financial Pro Forma Analysis: Queen Mary Operations and Land Side Development*

Structure of Pro Forma Models

The analysis of the proposed development scenarios is based on static pro forma models, which quantify development costs and revenue potential for the proposed development uses. All cost and revenue assumptions are based on 2012/2013 market rates, with a few exceptions discussed below. While the likely development timing for the proposed scenarios extends far into the future, current rates provide a consistent basis for understanding economic relationships. The most critical assumptions are discussed here, while all backing sheets can be viewed in **Appendix B.**

Rents are based on current market rates as of late 2012/early 2013. Marina rents were provided by The Corrough Consulting Group, a marina economics specialist. Hotel room rates, at $195 per room, represent the top of the Long Beach market. Likewise, residential rents are consistent with top-of-market Long Beach new construction as of 2012.

Tidelands Trust restrictions apply to the site and technically bar residential use, but it may be possible to pursue a swap, with the help of the City of Long Beach, to trade for the necessary land use rights for the Queen Mary site. The City expects some form of compensation for helping effect this trade, but the multifamily pro forma does not address it at this stage. Under current assumptions, additional fees would likely make multifamily development infeasible.

Construction Costs are based on current market rates as of late 2012/early 2013. Marina costs come from The Corrough Consulting Group. Hotel costs are based on recent development comparables. Retail and multifamily costs are sourced from RS Means and verified against EPS experience with similar developments.

Cap Rates, unlike other assumptions, are based on future rates rather than current rates. Current rates are compressed and unrepresentative of a normal market environment. Instead, the pro formas use an estimate of future “decompressed cap rates” more reflective of a normalized lending and development environment. These are shown in **Table 2**.

Table 2 Cap Rate Assumptions

	Marina	Hotel	Retail	Multifamily	Queen Mary
Estimated Future "Decompressed" Cap Rates	8.00%	8.00%	7.00%	5.75%	8.50%

Source: Economic & Planning Systems

Development Return Thresholds are used to identify a preferred return on vertical costs for each proposed use so as to calculate residual land value. The returns used in the pro formas are shown in **Table 3.**

Table 3 Return on Vertical Cost Assumptions

	Marina	Hotel	Retail	Multifamily
Return on Vertical Costs Preferred Return Threshholds	13.50%	14.00%	9.00%	13.00%

Source: Economic & Planning Systems

Infrastructure Costs totaling $5.9 million in Scenario 1 and $7.3 million in Scenario 2, consisting of streetscape, parks, and circulation improvements, are estimated for the project. These have been financed through CFD payments allocated to the proposed vertical developments in proportion to construction costs.

The Queen Mary model is based on the draft 2013 operating budget prepared in April, 2013. It includes typical hotel department revenues, such as room and board, as well as all ancillary revenues associated with event programming and existing sub-leases. This allocation of sub-lease revenues to the Queen Mary is arguably justifiable going forward, because programming and sub-lease operations overlap with normal Queen Mary operations. Furthermore, ground lease revenues are a critical contributor to Queen Mary operating profits.

The draft 2013 budget included a plug number for ground rent, which EPS has modified using the formula for calculating ground rent in the current ground lease. The original ground rent, given as $633,540, has been adjusted to $2,541,977.[7]

As noted earlier, Queen Mary event programming depends on the availability of surface parking, and as parking is absorbed by new development, event revenues and profitability are negatively impacted. The primary driver of reduced event profitability is off-site parking: for larger events, limited on-site parking necessitates use of off-site parking to address overflow demand. This creates a perception of inconvenience that arguably will lower ticket sales. Furthermore, off-site parking is expensive to provide, as it entails renting spaces and providing security and transportation to and from the off-site parking area. At best, off-site parking revenues break even with costs. On-site parking, on the other hand, is highly profitable.

For Scenarios 1 and 2, EPS in consultation with Evolution Hospitality developed a model to quantify operating losses associated with reduced parking, based on the following assumptions. From 0 to 9.99 percent reliance on offsite parking per event day, there is no impact on ticket

[7] The variance between budgeted and adjusted ground rent may be attributable to capital improvement costs applied as rent credits in the original budget.

sales; from 10-24.99 percent reliance offsite parking per event day, ticket sales are depressed from 0 to 10 percent on a linear basis; from 25 to 100 percent reliance on off-site parking, ticket sales are depressed from 10 to 40 percent on a linear basis. For example, 100 percent reliance on off-site parking for events would depress ticket sales by 40 percent.

Financial Analysis

Project Value before Land Costs

Residual land value analysis is a helpful method for estimating the value of the Queen Mary lease under different development scenarios. Residual land value is defined as the capitalized value of a project's stabilized net operating income, less development costs, less required developer proceeds (computed as a preferred return on vertical costs). The remainder represents the value a developer should be willing to pay for the land or, in the case of a ground lease, what surplus value may be available for ground rent. Modified slightly, a similar approach can be used to value an operating entity like the Queen Mary Hotel. By capitalizing Queen Mary net operating income from which ground rent expense has been deducted, the value of Queen Mary vertical operations can be compared and combined with the value of proposed new development projects under different development scenarios.

Using this approach, as shown in **Table 4**, the Baseline Scenario (no new development) generates a total residual value of $58.7 million; Scenario 1 (partial build-out) increases residual value by 7 percent to $62.6 million; and Scenario 2 (full build-out) increases value by 2.8 percent to $60.4 million but actually decreases in value from Scenario 2 by 3.5 percent. This curious dynamic is due to the fact that while new development in Scenarios 1 and 2 add $8 million and $4.6 million in residual land value respectively, the value of the Queen Mary contribution declines from the Baseline $58.7 million to $54.6 million in Scenario 1 and to $47.8 million in Scenario 2. As discussed previously, new vertical development absorbs surface parking, which is a revenue-generating asset for Queen Mary management.

The underlying land value economics complicate the decision for a master lease holder to develop vertical uses. While projections show Scenarios 1 and 2 will create some net new value, they do so at considerable risk, as there is little precedent for successful vertical development on the site after more than forty years of pre-development activity. Furthermore, as the net new residual land value is not great, the alternative to focus entirely on Queen Mary operations, for which there appears to be substantial upside, may be attractive for a lease holder. For example, the budgeted occupancy rate for 2013 is 65.3 percent, which is below the 76 percent average for the Queen Mary competitive set. While the Queen Mary is a unique property that should not be expected to reflect operating characteristics of conventional hotels, higher levels of occupancy should be attainable. The 2013 budget has scheduled approximately 106 days of special events, but according to the Queen Mary hotel operator Evolution Hospitality, there is great potential for adding programming and increasing the number of event days to further boost operating results.

Table 4 Residual Value under Three Development Scenarios

	Baseline[1]	Scenario 1: Partial Build-Out [2]			Scenario 2: Full Build-Out [3]		
	Queen Mary	Queen Mary	New Vertical Development	Total	Queen Mary	New Vertical Development	Total
Capitalized Value (Before Ground Rent)	**$58,719,370**	$54,607,215	$76,200,017	**$130,807,232**	$47,762,501	$219,725,201	**$267,487,702**
Vertical Development Cost	**NA**	NA	($60,105,194)	**($60,105,194)**	NA	($183,013,521)	**($183,013,521)**
Developer Targeted Return on Vertical Costs	**NA**	NA	($8,108,133) 13.5%	**($8,108,133)**	NA	($24,086,215) 13.2%	**($24,086,215)**
Residual Value	**$58,719,370**	**$54,607,215**	**$7,986,691**	**$62,593,906**	**$47,762,501**	**$12,625,464**	**$60,387,966**

(1) From 2013 Queen Mary Budget. Includes Queen Mary operations, events programming, lease revenue, and 1,600 surface parking spaces for Queen Mary and Queen Mary program events
(2) Adds Marina, Hotel, and Retail, park/pavilion, pedestrian plaza, parkable events area, and reduced Queen Mary surface parking totaling
(3) Adds Marina, Hotel, and Retail, Multifamily residential, park/pavilion, pedestrian plaza, parkable events area, and reduced Queen Mary surface parking totaling 370 spaces

Source: Economic & Planning Systems

Development Feasibility under Current and Proposed Ground Rent

Ground rents in the current ground lease are calculated largely on a percentage-of-gross basis. Furthermore, there are separate provisions and percentage rates for different revenue categories, which include Non-Waterfront Property (primarily Queen Mary operations), the Dome, and Waterfront Property, which encompasses existing and future development activity on the remaining land and water area. In general, current ground rent places a burden on new development that negatively impacts potential feasibility.

The impact of ground rent on project feasibility and returns can be measured by capitalizing net operating income inclusive of ground rent, and subtracting vertical development costs. Under current ground rents, project returns (shown in **Table 5**), vary considerably. Of the four proposed vertical uses, only the Marina, at 22.5 percent of vertical costs, is a clearly feasible use. This stems from extremely favorable Marina economics discussed in the market findings. Hotel returns at 8.6 percent, retail returns at 2.7 percent, and multifamily returns at 6.8 percent are not, however, likely acceptable as development risks.

Table 5 Estimated Return on New Development—Current Lease Basis

	Proposed New Vertical Uses				
	Marina	Hotel	Retail	Multifamily	**Total**
Capitalized Value (With Ground Rent)	$18,790,218	$43,617,760	$4,722,040	$131,303,456	**$198,433,474**
Cap Rate Assumption	*8.00%*	*8.00%*	*7.00%*	*5.75%*	
Vertical Development Cost	($15,339,734)	($40,167,543)	($4,597,917)	($122,908,327)	**($183,013,521)**
Net Proceeds	$3,450,485	$3,450,217	$124,123	$8,395,129	**$15,419,953**
Return on Cost	*22.5%*	*8.6%*	*2.7%*	*6.8%*	***8.4%***

Source: Economic & Planning Systems

The proposed ground rent structure for new development aims to align ground rent with residual land value, safeguard the developer's return on vertical costs (before land costs), simplify accounting, and provide participation for the master developer. Rents for new development would be based on residual land value, translated into an annual rent payment of 7 percent of estimated fee value. The rents would include a participation split of 20 percent to the City and 80 percent to the lease-holder. Once set, annual rent would be escalated at the CPI rate for the duration of the lease. (For more detail on proposed ground rent basis, see **Section 4**.)

As shown in **Table 6**, under the proposed ground rent scheme, estimated returns for each new vertical use category are now feasible. This is mainly attributable to the fact that lowered ground rent goes directly to increasing net operating income and capitalized value of the proposed vertical uses.

Table 6 Estimated Return on New Development—Proposed Lease Basis

	Proposed New Vertical Uses				
	Marina	Hotel	Retail	Multifamily	**Total**
Capitalized Value (With Ground Rent)	$17,799,235	$46,395,790	$5,011,729	$137,877,981	**$207,084,734**
Cap Rate Assumption	*8.00%*	*8.00%*	*7.00%*	*5.75%*	
Vertical Development Cost	($15,339,734)	($40,167,543)	($4,597,917)	($122,908,327)	**($183,013,521)**
Net Proceeds	$2,459,501	$6,228,246	$413,812	$14,969,653	**$24,071,213**
Return on Cost	*16.0%*	*15.5%*	*9.0%*	*12.2%*	***13.2%***

Source: Economic & Planning Systems

Impact of Current and Proposed Ground Rent on Queen Mary Operation

As with the proposed new vertical development, the proposed Queen Mary ground rent mechanism aims to better align ground rent with operating performance so as to safeguard owner returns. The proposed structure includes a nominal base rent of $25,000 per month and preferential return to the lease holder of a 12 percent return on costs, with costs defined as total operating costs exclusive of ground rent and capital improvement costs. Any available remaining cash flow is split 80 percent to the master lease holder and 20 percent to the City.

To fund Queen Mary capital improvements, the leaseholder would maintain a capital improvement fund as part of its operating expenses. In addition, City cash flow and potentially some share of the leaseholder cash flow would be contributed to the Queen Mary Reserve Fund, which would function as a backstop for maintenance requirements beyond those financed out of the lease-holder's capital improvement fund. (For more detail on proposed ground rent basis, see **Section 4**.)

As shown in **Table 7**, the proposed ground rent scheme, coupled with the supplemental cashflow provided by the proposed ground rent participation, improves operating margins significantly. Under current ground rent, the Queen Mary shows returns of 4.4 percent for the Baseline, 4 percent for Scenario 1, and 3.2 percent for Scenario 2[8]. The proposed ground rent scheme lowers ground rent expense to generate returns of 8.8 percent for the Baseline, 8.4 percent for the Scenario 1, and 7.7 percent for Scenario 2. This illustrates that lower ground rents are required for the Queen Mary to generate acceptable returns.

[8] The returns decline from the Baseline through Scenarios 1 and 2 is due to the overall economics of those Scenarios, despite the fact that ground rent declines as a percentage of costs.

Table 7 Estimated Queen Mary Margins: Current and Proposed Lease Bases

Ground Rent Basis	Estimated 2013 Queen Mary Operating Results		
	Baseline	Development Scenario 1	Development Scenario 2
Current Basis			
QM Revenue	$51,363,700	$50,003,902	$47,636,787
QM Expenses(1)	($49,208,127)	($48,098,770)	($46,142,526)
NOI	$2,155,573	$1,905,131	$1,494,261
Return on Operating Costs	*4.4%*	*4.0%*	*3.2%*
Proposed Basis			
QM Revenue	$51,363,700	$50,003,902	$47,636,787
QM Expenses(1)	($47,188,364)	($46,116,484)	($44,231,099)
NOI	$4,175,336	$3,887,418	$3,405,688
Return on Operating Costs	*8.8%*	*8.4%*	*7.7%*

(1) Expenses include $1,797,729 for "Property Improvement." This reflects scheduled capital improvements in the current ground rent scenario, equivalent to the annual contribution to the Queen Mary Capital Fund in the Proposed Rent Scenario.

Source: Evolution Hospitality and Economic & Planning Systems

Ground Rent Summary: Current and Proposed

The proposed rent structure lowers estimated ground rent significantly compared with rents based on the current lease. As shown in **Table 8**, Baseline ground rent declines 44 percent from $2.6 million to $1.4 million, Scenario 1 rent falls 45 percent from $3.2 million to $1.8 million, and Scenario 2 rent falls 53 percent from $3.8 million to $1.8 million. Because of the proposed split, the decline in rent remitted to the City is even greater (although rent credits for Queen Mary capital expenditures applied under the current lease basis would likely lower Queen Mary ground rent considerably).

However, as indicated by the feasibility analyses and Queen Mary returns discussed previously, this reduction in ground rent is arguably necessary to compensate the master lease holder for the upkeep and operation of an historic asset and to induce private development on a challenging site.

Table 8 Ground Rent: Current and Proposed Lease Bases

	Baseline	Scenario 1: Partial Build			Scenario 2: Full Build		
Rent Basis	**Queen Mary**	Queen Mary	New Construction	**Total**	Queen Mary	New Construction	**Total**
Current Basis	**$2,541,977**	$2,463,446	$722,310	**$3,185,756**	$2,326,740	$1,425,060	**$3,751,799**
Proposed Basis	**$1,411,068**	$1,205,795	$559,068	**$1,764,863**	$876,562	$883,783	**$1,760,345**
To City	***$522,214***	*$481,159*	*$111,814*	***$592,973***	*$415,312*	*$176,757*	***$592,069***
To Master Lessee	***$888,854***	*$724,636*	*$447,255*	***$1,171,890***	*$461,250*	*$707,026*	***$1,168,276***

Source: Economic & Planning Systems

Public Benefits

With up to 610,000 square feet of new shoreside uses and 6 acres of new waterside uses in Scenario 2, the proposed new development may generate significant new fiscal benefits for the City of Long Beach. As shown in **Table 9**, Scenario 1 could contribute $2.1 million in annual new fiscal benefits, and Scenario 2 $2.4 million. The biggest contributors are property taxes and property taxes in lieu of VLF, which together total 68 percent of Scenario 2 fiscal benefits. Of that amount, the Marina use generates 88 percent, due to the assessed value of mega-yachts registered in Los Angeles County using the facility as a home mooring. Other taxes, such as sales, utility users, business license, and transit occupancy tax (TOT) contribute 26 percent of total new general fund revenues, and the final 6 percent come from franchise fees, licenses and permits, fines, and service charges. For the all backing sheets for the full fiscal benefits analysis, see **Appendix C**.

In addition to net new fiscal revenues, the conceptual plan assumes construction of new public infrastructure to provide public open space and circulation throughout the development. Totaling $5.9 million and $7.3 million in cost in Scenarios 1 and 2, this infrastructure is financed by the new development by means of a CFD, with costs allocated proportionately to each proposed new use.

Table 9 Estimated Public Benefits

	Scenario 1: Partial Build	Scenario 2: Full Build
New General Fund Revenues (annual)		
Property Taxes	$1,109,279	$1,138,714
Property Tax in Lieu of VLF	$475,490	$488,107
Other Taxes		
Sales Tax	$25,159	$50,398
Utility Users Tax	$7,440	$71,902
Transient Occupancy Tax	$480,431	$480,431
Business License Tax	$16,794	$16,794
Franchise Fees	$4,396	$42,483
Licenses and Permits	$3,369	$32,561
Fines and Forfeitures	$3,229	$31,204
Charges for Services	$2,746	$26,537
Total Annual General Fund Revenues	**$2,128,332**	**$2,379,131**
Public Infrastructure(1)		
Site Preparation (excl. development pads)	$2,188,307	$2,657,106
Improvements	$1,738,734	$2,248,166
Parking	$1,060,000	$1,322,000
Additional Costs	$897,667	$1,120,909
Total Infrastructure Costs	**$5,884,709**	**$7,348,181**

(1) Financed through CFD allocated to new development

Source: Economic & Planning Systems

4. PROPOSED LEASE TERMS

The matrix below, prepared by Gibson Dunn Crutcher and EPS, summarizes terms of the existing lease, by subject/section, and summarizes proposed lease terms, where appropriate. The current lease requires significant redrafting as many of its clauses make reference to dates and specific milestones that are no longer relevant. In addition, we propose that the basic structure of rent be revised in recognition of the challenging economics of both operating and maintaining the Queen Mary, and accomplishing land side development of ancillary uses. With respect to the latter, we also are proposing mechanism to allow land side development to be underwritten and financed as free standing, third party developments, while generating revenues that will inure to the successful operation and maintenance of the Queen Mary. These proposed terms represent a simplification and recasting of the lease. We recognize that these conceptual changes will require detailed vetting and negotiation of more specific terms in collaboration with the City of Long Beach.

As illustrated in the prior section of this submittal, the operation and maintenance of the Queen Mary and development of the landside parcels involve substantial risks from an investor/developer/operator standpoint. While these projects have the potential to be viable, they do not produce high margins under any reasonably conservative market assumptions. A critical objective of recasting the lease is to make acquisition of the leasehold appealing to a new Master Developer who would step into the deal and carry the project forward. We believe the City's interest are primarily in seeing the project well executed and maintained over the long term, and in the visitor attraction and fiscal benefits that will flow from its sustained operations. For these reasons, a key element of the proposed lease amendment is to restructure rent, above a reasonable base rent, as a form of participation that is subordinated to market rate returns to the developer and maintenance of the Queen Mary. The salient points of this structure are described below.

- **Queen Mary Rent.** Operation of the Queen Mary is complex due to the unique nature of the asset. It receives revenues from hotel rooms, food and beverage, retail sales, parking, events, and the Carnival Cruise Lines lease. Operating costs are substantial, and it has the additional responsibility of maintaining the ship itself, which is crucial to its ability to attract visitors and generate operating revenues. Land side development could enhance its performance, but will also introduce additional demands on parking and potentially constraints on events, both important sources of revenue. Therefore, we propose a rent structure that would include a nominal base rent of $25,000 per month and preferential return to the operator of 12 percent cash on costs, with a split thereafter of any available cash flow 80 percent to the developer and 20 percent to the City.

  Developer would maintain a capital improvement fund as part of its operating expenses. In addition, City cash flow and potentially some share of developer cash flow above 12 percent would be contributed to the Queen Mary Reserve Fund, maintained as a subfund of the Tidelands Operating Fund. The amount of contribution would be determined based on a realistic estimate of future maintenance requirements above those to be financed out of the developers' capital improvement fund. Additionally, any extraordinary maintenance or repair costs borne by the developer would be fully credited against rent payments to the City, with unreimbursed funds accruing in an account bearing interest at developer's cost of funds.

- **Disposition of Land Side Development Parcels**. Because of the unique operational and financial characteristics of the Queen Mary, cross collateralization between the ship and land side development is likely to be very problematic from the standpoint of lenders and equity investors. For the leasehold as a whole to be marketable to a Master Developer, we believe it will be critical to structure the lease terms so that the land side parcels can be separately underwritten and financed for development. This is likely to be the case whether the development is done by the Master Developer or by a third party developer.

  To accomplish this, we propose that at the time land side development is to occur, a separate parcel will be established, and that parcel will be "disposed" to the development entity either through a sublease, or assignment, with a new 66-year lease term starting at execution of the sublease or assignment. The Master Developer would receive compensation for the disposition of development rights through a split with the City of land value, annualized into lease payments or prepaid as a lump sum, as described below.

- **Land Side Development Parcel Rent.** Rents for land side development would be structured as participation, subordinated to a preferential developer return. Return would be calculated as cash on cost of vertical improvements and would vary by land use type and prevailing capital market standards. At time of establishing sublease or assignment terms, a pro forma would be developed, and the residual land value of the project would be calculated based on assumptions agreeable to the City and the developer. Rent would be set based on a split of residual land value, with 80 percent to the developer and 20 percent to the City, translated into an annual rent payment at 7 percent of estimated fee value. Once set, annual rent to the City would be subject to a collared CPI increase over the term of the lease.

Table 10 Matrix of Existing and Proposed Lease Terms

	Subject/Section References	Existing Lease	Proposed Terms
1.	**LEASE, LANDLORD AND TENANT**		
	Lease	First Amended Lease and Operations Agreement of Queen Mary, Adjacent Lands and Improvements, Dome and Queen's Marketplace (the "Lease"), dated October 29, 1998	Lease to be amended and restated ("New Lease")
2.	**PREMISES AND OTHER LEASED PROPERTY**		
	Leased Premises	The "Premises" consists of: (i) the RMS Queen Mary; (ii) approximately 9.29 acres of water surrounding the RMS Queen Mary within the enrockment; (iii) approximately 43.38 acres of land adjacent to the RMS Queen Mary and improvements thereon, including the "Dome" and "Queen's Marketplace"; and (iv) certain additional water rights of approximately 11.55 acres adjacent to the RMS Queen Mary and the Catalina Channel Express facilities. [§ 2] The Premises were accepted by Tenant on an "as-is" and "with all faults" basis. [§§ 2.4-2.5]	No change to leased premises. Identify separate Development Parcels that can be released from the Leased Premises at Tenant's election, subject to Landlord and Tenant entering into a new 66-year Development Lease/Sublease with a parcel developer reasonably approved by Landlord. Identify "master tenant" obligations for entire Premises that must be retained by master tenant in all cases.
	Energy Plant	Landlord grants to Tenant, as its designee, the right to use, occupy, operate and maintain an energy plant and related equipment, pipelines and appurtenances located on 0.88 acres of land (the "Energy Plant"), which provide steam heat and chilled water for heating and air conditioning systems of the RMS Queen Mary. [§2.1] Tenant must use best efforts to have the energy plant relocated to a site within the Premises, subject to the obligation of the Board of Harbor Commissioners to pay for such relocation, if any, pursuant to City of Long Beach Harbor Department Resolution HD-1605. [*Id.*]	Need to understand current circumstances regarding Energy Plant. Language regarding relocation of Energy Plant to be deleted or updated, as appropriate.

	Subject / Section References	Existing Lease	Proposed Terms
	Personal Property	Tenant leases certain personal property used in connection with the RMS Queen Mary, which are detailed on a "Fixed Asset Report". [§2.2] ***[Note: The Fixed Asset Report is not attached to the Lease and has not been reviewed.]***	Schedule of personal property to be updated to reflect current circumstances.
	Catalina Channel Express	Landlord assigned to Tenant a revocable permit, pursuant to which Catalina Channel Express leased a portion of the Premises from Landlord. The permit was scheduled to expire December 31, 2002. [§2.3]	Provisions no longer applicable; to be deleted. Update to reflect current status of Catalina Channel Express.
3.	**TERM**		
	Term	66 years, commencing August 1, 1995 and ending July 31, 2061. [§3]	66 year term, commencing on the effective date of the New Lease, or provide for new individual 66-year development leases for parcels that will be released from the Master Lease, through sublease or assignment.
4.	**USE**		
	Permitted Uses	The Premises must be used for the purposes described below and for no other purpose, unless Tenant obtains the prior written consent of Long Beach City Manager ("<u>Manager</u>"): • <u>RMS Queen Mary</u>: Must be operated as a first class hotel, with a minimum of three (3) restaurants, tours and other lawful purposes that have been conducted aboard the RMS Queen Mary prior to execution of the Lease. Other uses may be permitted with written permission of the Manager. [§ 4.1] • <u>Balance of Premises</u>: Must be used for the purposes described in a draft environmental impact report dated May 1998 and final environmental impact report dated June 1998, subject to changes approved by Landlord and Tenant (which may require additional environmental analysis). [§ 4.2] • <u>Parking</u>: Is a permitted use, but only to the extent such parking is accessory to the foregoing uses. [§ 4.2]	The parties anticipate that the New Lease would be amended in the future to accommodate the developer's preferred development program, or governed under individual development leases. It is expected that a new EIR will be required.

	Subject / Section References	Existing Lease	Proposed Terms
		• Other Use Restrictions: No use or activity prohibited by Chapter 9.20 of the Long Beach Municipal Code as of October 29, 1998 is permitted (related to adult entertainment use). Any use or activity involving festival seating requires the prior written consent of the Manager. [§ 4.2]	
	EIR Scope of Development	• Phase Two (scheduled for completion in 2001): New on-board RMS Queen Mary attractions; new retail and restaurant on Quay Street; a new Science Fiction Hall of Fame; a new structured parking facility for 3,500 vehicles and improvements to surface parking; a new Catalina Express Terminal; a new yacht club hotel with 150-200 rooms; and new and improved infrastructure including a new 3-acre transient marina for 50 yachts, a water taxi dock, a new enrockment boardwalk, a new stair and elevated plaza, a new internal street system, improvements to Harbor Scenic Drive, and an improved connection to the 710 freeway. • Phase Three (scheduled for completion in 2003): Enhancement of the Dome into a 7,500 seat event facility; enhancement of existing outdoor Event Park to include an amphitheater and grassed berm seating; a new Major Theme Attraction; and additional retail development on Quay Street. [EIR, pages 13-14]	Provisions no longer applicable and should be deleted. Development program and performance requirements for land side development to be reflected in sublease or assignment terms.
5.	**RENT, TAXES, UTILITIES, SECURITY DEPOSIT**		
	Base Rent	$25,000.00 per month. [§ 5.1]	No change proposed.
	Percentage Rent – Non-Waterfront Property	Percentage Rent realized from business conducted on the RMS Queen Mary, the Dome or any other portion of the Premises that is *not* Waterfront Property (as defined below) is equal to the sum of items (1) and (2) below.	All obsolete dates and performance requirements to be deleted. As described above, land lord rent on the Queen Mary rent to be calculated annually as 20 percent of cash flow above 12 percent preferential cash on cost return on operations to

	Subject / Section References	Existing Lease	Proposed Terms
		(1) Non-Dome Gross Receipts: The sum of: o Three percent (3%) of Gross Receipts (as defined below) between $0 and $17,499,999.99; o Four percent (4%) of Gross Receipts between $17,500,000.00 and $22,999,999.99; and o Five percent (5%) of Gross Receipts in excess of $22,999,999.99. [§ 5.2] If Tenant did not complete construction of Phase One and commence construction of Phase Two on or before December 31, 2005, then each of the above listed percentages is increased by 1.0% for each year thereafter. [§ 5.2.1] (2) Dome Gross Receipts: Two and one-half percent (2.5%) of Gross Receipts realized from business operations conducted within the Dome or, if any subtenants within the Dome receives more than half of its gross receipts from retail sales, 2.5% of the rent received by Tenant from its said subtenants. [§ 5.3] **[Note that under a strict read, if there is even just one small subtenant that qualifies, then T would only be obligated to pay 2.5% of its rent]** "Gross Receipts" means: (i) gross revenue realized by Tenant or the RMS Foundation, Inc. or is successors ("Foundation") from business operations on the RMS Queen Mary; (ii) rent received by Tenant or the Foundation from any subtenant, licensee or concessionaire on the RMS Queen Mary which receives the majority of its revenue from retail sales and subleases less than 1,500 square feet; (iii) gross revenue realized by any subtenant, licensee or concessionaire which does not receive a majority of its revenue from retail sales aboard the RMS Queen Mary or subleases less than 1,500 square feet; (iv) allocatable gross revenue realized by Tenant, the Foundation or any subtenant from parking; (v) gross revenue realized by	the tenant. Dome rent [terms to be revisited?] flows to tenant as part of Queen Mary cash flow, subject to rent provisions for the Queen Mary. Capital improvement costs borne by tenant above those covered in capital improvement fund and Queen Mary Reserve fund will be fully credited against rent. Unreimbursed rent credits will accrue in a fund bearing interest at tenants cost of capital.

	Subject / Section References	Existing Lease	Proposed Terms
		Tenant from its own business on property adjoining the RMS Queen Mary (excluding the Dome); and (vi) gross revenue realized by subtenants, licensees and concessionaires on property adjoining the RMS Queen Mary (excluding the Dome). Gross Receipts does not include certain non-earned income, as described in more detail in the Lease. [§§ 5.2.2-5.2.3] *[**Note: Gross Receipts is defined in specific reference to determining non-Dome Gross Receipts, and a definition of Gross Receipts for other purposes is not provided in the Lease. Despite this apparent error, we assume that Gross Receipts would be calculated in the same manner, but based on revenue arising from the Dome**.]*	
	Percentage Rent – Waterfront Property	In order to incentivize development, the Lease imposes a different Percentage Rent formula for the "<u>Waterfront Property</u>", which includes 43.38 acres of land identified as the "Queen Mary Land Area" and the 11.55 acres of water rights identified as the "Development Side Water Rights" on Exhibit 2 to the Lease. Any element that is constructed partially within the Waterfront Property and partially within the enrockment area will be deemed to be Waterfront Property for purposes of calculating Percentage Rent. Percentage Rent is equal to the <u>lesser</u> of: (1) Five percent (5%) of the that year's Gross Receipts realized by Tenant and its subtenants, licensees and concessionaires; or (2) That year's Gross Operating Revenue (as defined below) realized from business operations within the Waterfront Property, <u>less</u>: (a) Tenant Operating Expenses (as defined below); and (b) Nine percent (9%) of the Development Costs (as defined below).	Land side ("Waterfront Property") development will occur on newly created subparcels, conveyed through sublease or assignment to a third party development entity (which may or may not be an affiliate of tenant). Rent would be set as part of the business terms for the sublet or assignment at the time of transfer, and will be defined as 20 percent of the calculated residual land value of the specific project to be developed, based on cash on cost returns appropriate for the contemplated uses, annualized at 7 percent per annum of fee value. Once established, land lord rent would be subject to an annual collared CPI adjustment.

	Subject / Section References	Existing Lease	Proposed Terms
		Items (a) and (b) are referred to as "Deductions". Note: The calculation of Percentage Rent as described in (2) above is only permitted as to any element (defined as the entirety of work to be done under a single permit) contained in a Phase until December 31st following the 144th month after the first construction permit is issued for such element, and in no event later than the year 2019. [§ 5.4] Note: The calculation of Percentage Rent as described in (2) above may not be used after the cumulative yearly amount of Deductions equals the total Development Costs (excluding Deductions for years in which Percentage Rent was paid pursuant to the formula described in (1) above). [§ 5.5] "Development Costs" means: (i) predevelopment costs; (ii) costs payable to third parties associated with offsite improvements and demolition; (iii) costs payable to third parties for the development (including site work, shell costs, signage, etc., net of reimbursement by subtenants where applicable); (iv) reasonable overhead (not to exceed 4% of all Development Costs); and (v) any expenditures made by Tenant in (i), (ii) or (iii) to the extent such amount does not exceed what would reasonably have been paid to a third party. [§ 5.6] For purposes of calculating Percentage Rent, Development Costs include any Development Costs incurred on the Waterfront Property by any subtenant of Tenant if Manager has approved all agreements between Tenant and subtenant relating to such expenditures (except a sublease to the Foundation, for which Manager's approval is not required). [§ 5.7] "Gross Operating Revenue" means all gross income, rentals, revenues, payments and consideration resulting from ownership, operation, leasing or occupancy of the Premises, including but not limited to: (i) fixed and percentage rents; (ii) rents and receipts from licenses,	

	Subject / Section References	Existing Lease	Proposed Terms
		concessions and filming fees; (iii) proceeds from business interruption insurance or takings awards; (iv) proceeds from reserve accounts or earned interest associated with any assessment district financing; and (v) reimbursement of common expenses by subtenants. [§ 5.8] "Tenant's Operating Expenses" include reasonable and customary operating expenses. Actual management expenses that do not exceed 4% of gross operating revenue and a capital replacement reserve that does not exceed 2% of net operating revenue may be deducted from Tenant's Operating Expenses. [§ 5.9]	
	Taxes	Tenant is responsible for paying any property taxes, assessments and other governmental and district charges levied on Tenant's possessory interest in the Premises, the improvements or Tenant's personal property as and when due. Tenant has the right to contest any taxes in good faith. [§ 10]	No substantive changes anticipated.
	Utilities	Tenant is responsible for paying for all utilizes and related services furnished to the Premises. [§ 21] Tenant is responsible for operating and maintaining the Energy Plant. [*Id.*]	No substantive changes anticipated to utilities. Need to understand current circumstance regarding Energy Plant, and whether provision is still applicable.
	Security Deposit	$25,000.00 [§ 9]	City to retain existing Security Deposit. No Security Deposit for new development leases.
6.	**ALTERATIONS, MAINTENANCE**		
	Alterations, Additions, Improvements	Consent Required to Alter. The prior written consent of the Manager (which shall not be unreasonably withheld) is required to: (i) make any alteration, addition or improvement affecting the structural integrity, historic character, or the design and configuration of the RMS Queen Mary; (ii) make any improvements to the Waterfront Property; or (iii) make any alteration affecting the structural integrity of the Dome. Improvements contemplated by the EIR are approved by Landlord in concept, but still subject to the aforementioned consent	Alterations Clause (i). No substantive changes anticipated. Clause (ii). Establish criteria for improvements allowed without consent, subject to $ threshold and scope of permitting requirements. Improvements for Development Parcels subject to approval, not to be unreasonably withheld. It will be unreasonable to withhold consent for improvements that are consistent with allowable uses under the Lease or under permitted use provisions of

	Subject / Section References	Existing Lease	Proposed Terms
		requirement. [§13] To obtain Manager's consent, Tenant must submit: (i) reasonably detailed plans and specifications; (ii) a statement describing the reason for the alteration, addition or improvement; (iii) the contemplated use; (iv) the anticipated cost; and (v) the estimated time for completion. Landlord must respond within 15 days, and any failure to respond shall be deemed an approval. [*Id.*] Tenant's Expense; Lien-Free. All work shall be at Tenant's expense and performed in a workmanlike manner with high quality parts and materials. Tenant must keep the Premises free from liens, and indemnifies Landlord for any lien that is not released or bonded over in an amount equal to 125% of the lien. [*Id.*]	Development Parcel leases. Clause (iii). [**Discuss proposed plans for the Dome]** Tenant's Expense; Lien-Free. No substantive changes.
	Maintenance and Repairs	Maintenance Obligations. Tenant must: (i) keep the RMS Queen Mary in good condition and repair, to a standard at least as high as that to which the vessel was kept in 1994; (ii) keep the Premises, all improvements and all furnishings and fixture in good condition and repair; (iii) keep the Premises free from litter and the landscaping neat; and (iv) comply with the terms of the Base Maintenance Plan attached to the Lease as Exhibit 5. Manager may amend the maintenance obligation at his/her discretion, but may not impose a greater burden on Tenant than existed under plans in effect in prior years unless warranted by changed circumstances. [§14] Cost of Maintenance. Except with respect to the Queen Mary Reserve Fund, all maintenance is at Tenant's sole cost. [*Id.*] Queen Mary Reserve Fund. Landlord is obligated to establish and maintain a subfund in the Tideland Operating Fund to be used for making necessary improvements to the RMS Queen Mary (the "Queen Mary Reserve Fund"). Prior to completion of the Phase Two improvements, Landlord must deposit 20% of the rent received from Tenant in excess of	Delete all obsolete references to phases and performance standards. No change to the "spirit" of the maintenance obligation required, but may need to update the maintenance standards, i.e. reference to 1994 and the attached Base Maintenance Plan. **[Discuss extent to which Queen Mary Reserve Fund has been drawn down. May need to update provisions to reflect current conditions and delete outdated references.]** Contribution amounts should be set based on actual anticipated costs not covered by other maintenance and reserve funds.

	Subject / Section References	Existing Lease	Proposed Terms
		$1 million (excluding any pass through rent from Catalina Channel Express) into the Queen Mary Reserve Fund. Following completion of the Phase Two improvements, such percentage is increased to 30%. Any distribution from the Queen Mary Reserve Fund requires the authorization of Manager, which shall not be unreasonably withheld. No funds may be disbursed until completion of the "Teak Deck Project. All persons paid with funds from the Queen Mary Reserve Fund (excluding persons employed in the refurbishment of the RMS Queen Mary) must be paid prevailing wages (as defined in Section 1770 *et seq.* of the California Labor Code). [§ 15] In addition, Landlord agreed to pay and fund from the Queen Mary Reserve Fund $5 million in connection with the refurbishment of the RMS Queen Mary, which were to be paid in connection with $6 million from Tenant. [*Id]*	
	Landlord Right to Inspect	Landlord will designate a representative to inspect the Premises from time to time. If Landlord determines that Tenant has failed to maintain the Premises as required by the Lease, Landlord shall notify Tenant and designate a cure period. [§16]	No substantive changes anticipated.
7.	**DAMAGE OR DESTRUCTION**		
	Casualty [§24]	If the Premises or improvements are partially or totally destroyed, the Lease shall remain in effect and Tenant shall promptly restore the improvements to substantially the same condition so long as (i) the restoration is permitted under existing laws and (ii) the insurance proceeds are sufficient to cover the restoration. If either (i) or (ii) is not the case, Tenant may terminate by delivering written notice to Landlord. [§24] If the RMS Queen Mary is partially or totally destroyed, the Lease shall remain in effect unless the cost of restoration exceeds $1 million. If the cost of restoration exceeds $1 million, Tenant may terminate the Lease with respect to the RMS Queen Mary only. If the cost of restoration is less than	**For Discussion:** **(1) Adjust downward the threshold for QM restoration from $1 M?** **(2) If lease terminates as to QM, should tenant have option to terminate remainder of Lease not otherwise covered by subsequent development leases?**

	Subject / Section References	Existing Lease	Proposed Terms
		$1 million, Tenant must repair the damage. [*Id.*] Rent shall be abated during any period of repair. [*Id.*]	
	Condemnation	If the entire Premises or improvements are taken by eminent domain, then the Lease shall terminate. If there is a partial taking and the remaining portion cannot be restored to an economically operable facility of comparable kind and quality, then Tenant may terminate the Lease. If there is a partial taking and the remaining portion can be restored to an economically operable facility, the Lease shall remain in effect subject to a reduced rent agreed to by Landlord and Tenant. [§25]	No substantive changes anticipated.
8.	**INSURANCE & INDEMNITIES**		
	Insurance Requirements	Tenant must maintain for the duration of the Term the following insurance policies in the following minimum amounts: (3) Commercial general liability insurance ($10 million per occurrence and in the aggregate) or self-insurance; (4) Workers' compensation insurance (as required by law) and employer's liability insurance ($1 million); (5) Automobile liability insurance including garagekeeper's liability ($2 million combined single limit per accident); (6) "All-Risk" property insurance covering replacement of the RMS Queen Mary ($50 million); (7) "All-Risk" property insurance covering replacement of the Dome and Marketplace (full replacement value); (8) "All-Risk" property insurance covering replacement of buildings and structures on the Premises and personal property (full replacement value); and (9) Business interruption insurance (providing for rent due to Landlord for 12 months). [§11]	Requirements to be brought up to date with respect to standard requirements /coverage amounts

	Subject / Section References	Existing Lease	Proposed Terms
	Indemnity	Tenant indemnifies Landlord, the Board of Harbor Commissioners, and their officers and employees from injury, loss, claims, causes of action, demands or damages to person or property while on the Premises or in connection with Tenant's operations or as a result of Tenant's wrongful omission, neglect or fault. [§12]	No substantive changes anticipated.
9.	**DEFAULTS AND REMEDIES**		
	Tenant's Defaults	The following constitute a Tenant default under the Lease • Failure to pay rent when due if such failure continues for 10 days after written notice; • Failure to perform any other obligation if such failure continues for 15 days after written notice; • Abandonment of the Premises, including an absence from the Premises for seven (7) consecutive business days while in default; • A general assignment for the benefit of creditors; the filing of bankruptcy or insolvency proceedings (unless dismissed within 60 days); the appointment of a trustee or receiver to take possession of Tenant's assets (unless unconditionally restored within 30 days); or any execution of judicially authorized seizure of Tenant's assets (unless discharged within 30 days); • Failure to operate the hotel, supporting restaurants and tours of the RMS Queen Mary for 30 consecutive days, provided that no refurbishment of the RMS Queen Mary shall constitute such a "failure to operate" so long as the refurbishment lasts no more than 6 consecutive months and no more than 365 days in any 5 year period (unless the result of substantial damage or destruction); and • Committing waste on the Premises .[§27.1]	Need to evaluate time periods for failure to operate the hotel. Revise provision re: failure to perform for obligations to allow for a cure period of 30-days or if the default cannot reasonably be performed within 30 days, Tenant has commenced a cure and diligently continues to pursue a cure thereafter. Abandonment should be for a period of 60-days, and shall not apply to periods of refurbishment, etc…

	Subject / Section References	Existing Lease	Proposed Terms
	Landlord's Remedies	Landlord has the following remedies under the Lease, in addition to any available at law or in equity: • Terminate the Lease and recover from Tenant: (i) any unpaid rent earned prior to termination; (ii) rent that would have been earned through the remainder of the Term, less the amount that Tenant proves could reasonably have been avoided; (iii) any other amount necessary to compensate Landlord for Tenant's failure to perform (e.g. brokerage commissions); and (iv) any other amount permitted by law; and • Continue the Lease and enforce the right to recover rent as it becomes due. [§27.3] If Tenant fails to perform an obligation for 20 days after notice, Landlord may perform the obligation and Tenant must reimburse Landlord within 15 days of demand. [§ 28] In addition, payments due under the Lease, which are not paid within 10 days of written notice, bear interest at the maximum rate permitted by law. [§ 26]	Revise to obligate LL to enter into approved form of Subordination Non-Disturbance Agreements, pursuant to which, in the event of a termination for default, LL agrees to recognize rights and obligations of Sublandlord and Subtenant under the Lease and any Development Leases.
	Tenant's Remedies	Tenant's sole remedy is to sue for damages, injunctive relief or declaratory relief. Tenant may not terminate the Lease or vacate the Premises as a result of a default by Landlord. [§27.7]	No substantive change anticipated
10.	**ASSIGNMENT AND SUBLETTING**		
	Assignment	<u>Restricted Transfers</u>. Tenant may not make any "Transfers" prior to completion of Phase One. Thereafter, a Transfer is not permitted without Landlord's written consent, which shall not be unreasonably withheld. Notwithstanding the foregoing, Landlord's consent is not required to assign the Lease to an affiliate of Tenant so long as certain conditions are met, including that the affiliate's net worth be equal to or greater than Tenant's. [§ 17] "<u>Transfer</u>" includes: (i) an assignment, mortgage, pledge, encumbrance or otherwise transfer Tenant's interest in the	• Assignment/subletting provisions need to be updated to permit development of sub-parcels by an assignee and/or subleasee, with a new 66-year term for the assigned/sublet parcel commencing at transfer. • Delete references to 10% transfer fee. • Landlord rent calculated at 20 percent of residual land value of sublet or assigned parcel, based on market rate cash on cost return to developer,

	Subject / Section References	Existing Lease	Proposed Terms
		Lease; (ii) any sublease or occupancy of any portion of the Premises, other than by Tenant or the Foundation; or (iii) any change in control of Tenant (as such term is more particularly described in Section 17.5.1 of the Lease). [§ 17.1.1] A foreclosure or conveyance in lieu thereof does not constitute a Transfer requiring consent. [§ 19.8] Procedure & Fees. Tenant must submit a Transfer Notice (as more particularly described in the Lease) at least 45 days prior to the proposed transfer. Landlord's consent or denial shall be granted within 14 days, and shall be deemed granted if not acted upon within such 14 day period. Tenant must pay a transfer fee of 10% of the price of either (i) the distributive share (based on ownership of shares of Tenant's stock) of Joseph P. Prevratil and/or Paul Simon Leevan resulting from an assignment of the Lease, or (ii) any proceeds realized by the foregoing resulting from an assignment of shares of Tenant's stock. [§ 17]	annualized at 7 percent of fee value. • Expand on concept of "Permitted Transfer" allowed without consent of Landlord, subject to net worth and experience test, and agreement on rent as calculated above. • No consent required for leasehold mortgages, or foreclosures/deed in lieu etc... • Subleases to be governed by changes suggested below. • May suggest changes to definition of "change in control"
	Sublet	Landlord's prior written consent is required to sublet portions of the Premises, which sublet may not exceed 150,000 square feet per any one subtenant. Landlord's consent or denial shall be granted within 14 days of receipt of a copy of the proposed sublease, and shall be deemed granted if not acted upon within such 14 day period. [§ 17.6] The termination of the Lease will not affect the validity of any sublease, and Tenant's interest as sublessor shall be deemed assigned to Landlord. [§ 23]	• The Lease would allow Tenant to identify specific development parcels that may be released from the Master Lease, subject to a new development lease for a term of up to 66-years between tenant or its assignee and City. • The development lease shall permit subleases to a third party without Landlord consent, so long as the subtenant meets certain qualifications for net worth/experience, and agreement on rent, as described above. • Uses permitted under the development lease/sublease shall be consistent with the master lease, or as modified subject to required environmental review, Landlord consent, not to be unreasonably withheld, and regulatory approvals. • The development sublease shall provide for a streamlined process for Landlord approval of improvement plans and specifications, subject to specified standards, and will include an expedited

	Subject / Section References	Existing Lease	Proposed Terms
			dispute resolution procedure. • Certain obligations may be retained by master tenant for the entire Property. • Development leases will include approved form of SNDA and commercially reasonable leasehold mortgage provisions.
11.	**MORTGAGEE PROTECTIONS**		
	Right to Mortgage	Tenant may mortgage all or a portion of its interest in the leasehold estate. Tenant must deliver to Landlord a copy of the applicable note or mortgage. [§19.1]	Maintain right to mortgage leasehold estate. Clarify that sub-parcels may be financed separately pursuant to development leases, or approved subleases.
	Mortgagee Rights	Right to Replace Directors/Officers. If there is an uncured default by Tenant, mortgagee has a right to effectuate a change of control of the board of directors of tenant and such board may appoint new officers. [§ 19.2] ***[Note: This provision is unlikely to be enforceable against a tenant if the organizational documents of such tenant do not similarly provide for replacement by a lender.]*** Rights of Mortgagee of Entire Premises. Provided mortgagee has delivered written notice to Landlord, (i) Landlord will deliver a notice of default to mortgagee concurrently with any such notice delivered to Tenant, (ii) mortgagee will have the right to perform any obligation of Tenant, (iii) mortgagee or its assignee for value may succeed to the interests of Tenant under the lease following a foreclosure or deed in lieu of foreclosure, provided any assignee assumes Tenant's obligations in writing, (iv) mortgagee will have the right to pay any rents due, but only for a period of 30 days following Tenant's deadline for paying the same, (v) following a non-rent default, Landlord will not terminate the Lease without first giving mortgagee reasonable time to effect a change of control (as described above), obtain possession of the Premises, or institute foreclosure proceeding, (vi) the Lease will remain in full force and effect if a default has been cured or foreclosure proceedings discontinued, and (vii) an assignment resulting from	Mortgagee protections to be updated to reflect current market terms. Right to replace directors/officers to be deleted.

	Subject / Section References	Existing Lease	Proposed Terms
		foreclosure proceedings or deed in lieu will be deemed a permitted transfer. [§ 19.3] Rights of Mortgage of Partial Premises. Provided mortgagee has delivered written notice to Landlord, (i) Landlord will notify mortgagee of a default as provided above, and identify the elements of such default attributable to the applicable encumbered property, (ii) mortgagee will have the right to cure such default to the extent attributable to the applicable encumbered property in the manner set forth above, thereby avoiding forfeiture of the Lease as to the applicable encumbered property, and (iii) in the event of a foreclosure on a portion of the Premises, Landlord will delete such portion from the description of the Premises contained in the lease and will tender to mortgagee or its assignee a replacement lease upon the same terms and conditions. [§ 19.4] Estoppel Certificates. With 15 days of written request from Tenant, Landlord will deliver an estoppel certificate to Tenant stating that the Lease is in full force and effect, there are no known uncured defaults, the commencement date and the date to which rent has been paid. [§ 19.5] Within 20 days of written request by mortgagee, Landlord will deliver an estoppel certificate to mortgagee. Tenant Bankruptcy. If a mortgagee is prohibited from commencing or prosecuting foreclosure proceedings due to bankruptcy or insolvency proceedings involving Tenant, the time for prosecuting such foreclosure will be extended provided that mortgagee cures any monetary default of Tenant and continues to pay monetary obligations as they become due. [§ 19.6] Termination of Lease. If the Lease is terminated for any reason (including Tenant default or rejection of the Lease in bankruptcy proceedings), and if requested by any mortgagee, Landlord will enter into a new lease with the most senior mortgagee requesting a lease of the same	

	Subject / Section References	Existing Lease	Proposed Terms
		terms as the Lease for the remainder of the term, provided (i) the mortgagee submits a written request within 20 days after termination of the Lease, (ii) mortgagee pays all sums that would be due and payable under the Lease but for its termination, and (iii) mortgagee performs all covenants of Tenant contained in the Lease. Any new lease will be subordinate to any mortgage or encumbrance, and will be accompanied by ownership of the improvements for so long as the new lease remains in effect. [§ 19.7] Upon request, Landlord will pursue legal remedies to oust the original Tenant and subtenants, but will not seek to terminate any sublease until it has received notice from all mortgagees that none will seek to enter into a lease.[§§ 19.10-11] Limited Mortgagee Liability. If a mortgagee or its designee becomes the tenant under the Lease or a new lease, the mortgagee or designee will be personally liable for the obligations of Tenant only for the period of time that it remains the actual beneficial holder of the leasehold. [§ 19.9] Notice of Arbitration, Condemnation Insurance. Landlord and Tenant will give all mortgagees notice of any arbitration, condemnation proceeding or pending adjustment of insurance claim, and any decision made in connection therewith. Mortgagee may, at its option, participate in such proceedings. [§ 19.12]	
12.	**OTHER LEASE PROVISIONS**		
	Hazardous Materials [§4.4]	Tenant may not permit any Hazardous Materials (as defined in the Lease) to be used or stored on the Premises, excluding limited quantities for standard office and janitorial supplies and petroleum products in vehicles. Tenant must comply with all Environmental Laws (as defined in the Lease). Tenant must notify Landlord in writing if it becomes aware of any Hazardous Materials or any governmental inquiry or claim. Tenant must remediate any contamination resulting from Hazardous Materials brought onto the	No substantive changes anticipated.

	Subject / Section References	Existing Lease	Proposed Terms
		Premises by Tenant or its employees, agents, contractors or invitees, subject to Landlord's prior approval of the remedial action. [§4.4] Tenant indemnifies Landlord with respect to all losses arising out of or resulting from Hazardous Materials or violations of environmental law. [*Id.*]	
	Books and Records [§6]	Tenant must keep full and complete books and records, and require its subtenants to do the same, all of which shall be made available to Landlord upon reasonable notice. [§6] Any deficiency in the payment of rent shall bear interest at the rate of 10% per annum. If the amount of the deficiency for any lease year exceeds 5% of the rent paid, Tenant must pay the cost of an audit, not to exceed $25,000. [*Id.*]	No substantive changes anticipated.
	Reporting Requirements	Within three (3) months of the end of each lease year, Tenant must deliver audited financial statements to Landlord. [§ 7] Tenant must inform Landlord by December 31st of each year of the names, addresses and number of share owned by each owner of stock in Tenant. [§ 20]	**[Discuss – For proprietary financial information, may include provision that relevant information be made available for inspection, but may not require submittal of proprietary financial information to Landlord]**
	Force Majeure	If the performance of an act required by the Lease is prevented or delayed for one of the following reasons, the time for performance of such act shall be extended for an equal time: act of God, strike, lockout, labor trouble, inability to secure materials, restrictive governmental laws or regulations, or any other cause (except financial inability). [§ 31.13]	No substantive changes anticipated.
	Surface Entry	Landlord represents that neither Landlord nor any entity claiming mineral rights through Landlord has any right of surface entry to the Premises <u>except</u> for maintenance and repair of oil production pipelines and equipment owned and operated by THUMS, Long Beach Company or any other company with which Landlord has a contractual agreement regarding the production of crude oil. [§ 31.16]	To be updated to reflect any change in circumstances.

	Subject / Section References	Existing Lease	Proposed Terms
		[Note: We recommend confirming whether any such agreements are in effect today or could be entered into in the future, and which portion of the Premises may be affected.]	

APPENDIX A:

Market Analysis

The Economics of Land Use

CELEBRATING 30 YEARS

MEMORANDUM

To: Long Nguyen, Garrison Investment Group

From: Andrew Kaplan and Jim Musbach

Subject: Market Potential, Queen Mary Ground Lease Amendment Project; EPS #124029

Date: December 17, 2012

The Economics of Land Use

This memo provides an overview of market and conditions influencing the development potential for the Queen Mary Site. It has been prepared for Garrison Investment Group by Economic & Planning Systems (EPS) as part of the Queen Mary Ground Lease Amendment Project. The ultimate goal of the project is a renegotiation with the City of Long Beach of the current terms of the underlying ground lease to make it more marketable to potential partners for on-site development, refinancing, and disposition.

This memo provides the foundation for additional studies to follow. These will present development program scenarios that have been tested and quantified for development feasibility, potential fiscal benefits, and potential ground rent proceeds. The scenarios and their fiscal consequences will form the basis for the negotiation with the City of Long Beach.

In preparing this market overview, EPS has drawn on several sources of data supplemented by interviews with a broad set of industry professionals, including:

Sean Maddock and Eli Sligar, Evolution Hospitality (current operators of the Queen Mary); Steve Goodling, Long Beach Convention and Visitors' Bureau; John Courrough, The Corrough Consulting Group (marina specialists); Brian Jones, former CEO of Forest City West Coast Development; Scott Carlson, SVP, Forest City Residential Development; Robert Garey, Office Market broker for Long Beach, Cushman and Wakefield; Laurie-Lustig Bowers and Mark Ventre, residential market brokers for Long Beach, CBRE; name withheld, EVP, Walt Disney Parks and Resorts Worldwide; Amy Bodek, Director of Development Services, City of Long Beach; Matt Earnest, Principal, Entertainment + Culture

Economic & Planning Systems, Inc.
949 South Hope Street, Suite 103
Los Angeles, CA 90015-1454
213 489 3808 tel
213 489 3881 fax

Berkeley
Denver
Los Angeles
Sacramento

www.epsys.com

Advisors; Jill Bensley, JB Consulting (entertainment consultancy); Reed Garwood, EVP, Asset Management & Development, Rising Realty Partners (whose executives have a long Long Beach development track record); Jim Anderson, CEO of Anderson Pacific and member of the Downtown Long Beach Association; Randy Jackson, President, The Planning Center / DC&E.

The memo begins with a set of **key findings** that summarize DRAFT conclusions to date; the sections that follow discuss **site context**, **area demographics**, current **Queen Mary performance**, and a review of market potential for a range of land uses, organized into categories for **feasible land uses** and **not-feasible land uses**.

A draft development program with vertical uses, land development, and parking is shown in **Appendix A**. This program will form the basis for the initial development feasibility, residual land value, and fiscal benefits analyses.

A preliminary **Concept Diagram Land Use Plan** with accompanying **Land and Parking Summary**, prepared by Studio 111, is attached as **Appendix B**.

A separate report on large vessel marina potential, prepared by the Corrough Consulting Group, is attached as **Appendix C.**

Summary of Findings

1. ***A marina for large private vessels represents a strong opportunity for value creation and place-making on the Queen Mary site.***

   There is strong demand for west coast marina berths for large private vessels (defined here as greater than 80 feet) due to the growing number of such vessels worldwide and a limited number of destinations with facilities capable of accommodating them. Large vessel marina supply is expected to remain constrained because there are very few marina-compatible sites available for new development, and regulatory and political considerations severely limit the ability of existing marinas to consolidate small slips into large berths. The cove between the Events Park and the Queen Mary bow could physically and operationally support up to 14 large vessels, in addition to the existing Catalina Cruise Lines facility. Such a marina development could generate strong returns, based on current global market rates and typical operating costs. Furthermore, a large vessel marina would use a minimal amount of shore-side land, due to low parking requirements and the modest land requirements of the marina servicing facility. A large-vessel marina at the Queen Mary site would likely serve as a stop-over point for visitors or a home berth for regional residents, and thus would not likely generate significant spill-over demand for other on-site uses such as retail or hotel. However, it could enhance the ambience of the overall site, provide an additional attraction for site visitors, and help induce additional land development.

2. ***A small luxury hotel of four stars or greater with strong amenities and conferencing facilities could complement the Queen Mary by diversifying on-site lodging options, create additional demand for the Queen's food, beverage, and rental spaces, and provide the site with a central gathering place.***

   Despite general interest in the Queen Mary as an attraction, the ship's small state rooms and lack of amenities restricts its market potential. A new small hotel with modern rooms and luxury amenities such as a health club and day spa could attract another customer segment to the site and increase its share of the business conferencing market without cannibalizing core Queen Mary hotel revenues. Market factors for an onsite hotel are generally favorable, as average Southern California REVPAR rates for Tier 1 and waterside destination hotels have recovered fully since the recession and have, in fact, been setting new records. A general lack of pipeline supply, and the fact that Los Angeles County has a limited number of waterfront conferencing hotels, strengthens the case for this use.

3. ***Residential development, for either multi-family or condominiums, represents a challenging but potentially viable use for the Queen Mary site. The case for suitability rests on the argument that the site's views, uniqueness, and proximity to the Queen Mary offer a special and exclusive location for a creative residential development, outweighing the challenges represented by the site's lack of supporting amenities and perceived isolation.***

   Downtown Long Beach is believed to have strong long-term residential development potential due to its coastal location, accessibility, and proximity to job centers. Recent market indicators suggest that condominium prices of $500 per square foot or higher and rental rates as high as $3.35 per square foot are supportable in today's market. The risks associated with residential development on the site can possibly be mitigated by good design and a highly differentiated product. Tidelands Trust restrictions apply to the site and technically bar this use, but a strong case for residential development could justify pursuing a swap with the help of the City of Long Beach to trade for the necessary land use rights.

4. ***The Queen Mary operates differently—and successfully—compared with its competitive set. Event programming, which is a parking-intensive land use, is a key and growing contributor to net profitability. There is a tension, however, between the profit maximizing potential of the current operating model and the development potential of the entire site.***

   In its current operating model, the Queen Mary doesn't require occupancy and ADR rates equivalent to its competitive set to be successful, because it commands very strong ancillary revenue streams from the food & beverage category and, in particular, from event programming. With an average daily operating profit of nearly $32,000 over a 106-day schedule, event programming also has significant expansion potential. But because event programming depends to some degree on available on-site parking, future vertical development, which would absorb some or all of that parking, could limit or displace event revenues significantly. There is some indication of customer demand flexibility for event tickets with regard to onsite parking availability, as demonstrated by numerous 2012 events that effectively utilized offsite parking to handle overflow demand. Ultimately, an optimized development program for the Queen Mary site will need to find a balance between vertical land development and event programming.

5. ***The creation of a waterfront promenade or other public open space is a potentially valuable component for future site development. However, such open space is not likely to generate enough direct revenue to cover construction costs, and its justification depends on whether as a site amenity it can catalyze additional land development.***

   The Queen Mary is the only great "place" on the site, which limits visitor options. Another welcoming land-side "place" could provide an alternative draw and elevate the site's status as a destination. One possible approach is a promenade that runs from the Events Park, passes along the stretch of shoreline north of the Queen Mary, continues parallel to the port side of the Queen Mary, and terminates at the Dome, thereby connecting all site attractions. The rock enclosure surrounding the Queen Mary, if improved for pedestrian access, could provide additional spectacular public space. However, the revenue potential of such improvements may be limited, so economic justification must be based on an argument that such a public amenity is a pre-condition for or inducement to additional land-side development and site programming.

6. ***Major retail development is not a promising option for the Queen Mary site, given its physical constraints, small developable area, and trade area limitations resulting from the waterside port-adjacent location.***

   The water-side and port-adjacent location has resulted in a low residential density within the one-, three-, and five-mile radii. Carnival Cruise lines brings approximately 275,000 people to the site per year, but cruise customers generate very little retail demand as they typically do not linger on-site before or after a cruise. Consequently, major retail opportunities are limited to "destination"-style schemes, which operate at a scale that exceeds the site's developable land area. In addition to the site's physical constraints, there is significant retail competition at nearby, less-isolated sites such as the Pike at Rainbow Harbor and a revitalizing Downtown Long Beach.

7. ***Large-scale destination-oriented "themed" entertainment is not a promising option for the Queen Mary site due to its small size, relative isolation, and the strong existing competition from other themed entertainment options within the larger trade area.***

   Most themed entertainment options are inefficient land users, as they require a large quantity of horizontal area for attractions and parking, and the available land area on the Queen Mary site is both too small and likely to be too expensive to support such uses. The trade area around Long Beach for themed destination entertainment includes many formidable competitors, including Disneyland, Universal Studios, and the Santa Monica Pier. Downtown Long Beach offers competition as well, with Rainbow Harbor, the Aquarium, Shoreline Park and Village, and the Pike. Finally, few operators have the resources, creativity, and clout to develop a themed entertainment destination on the Queen Mary site, and one that does—Disney—has already tried.

8. ***Downtown Long Beach is not a strong office market in general, and the Queen Mary site has several disadvantages that make on-site office development a weak option.***

   Office tenants prefer to cluster in office districts, and they value nearby options for living and playing. No matter what kind of complementary development may occur on the Queen Mary site, it cannot equal the walkable amenities and transit options that surround the office towers in Downtown Long Beach's primary office area. Furthermore, the Long Beach downtown office market has been static for some time: lease rates are low, vacancy rates are high, and no new office buildings have been constructed since 1996.

Site Context

The Queen Mary leasehold[1] includes multiple elements intended to ensure the continuous operation of the Queen Mary vessel and provide for adjacent development. The total Queen Mary site encompasses 43 land-side acres and 20 water-side acres and includes both land-side and water-side improvements, much of which is covered by surface parking. Current uses are detailed below.

- The **Queen Mary** hosts a 356-room hotel (with potential for 365 rooms) with three restaurants, three snack bars, two wedding locations, 44,000 square feet of meeting space, an exhibit hall with 50,000 square feet of space, and extensive open deck space. In addition, according to the property manager, there are vast quantities of additional space within the ship's former boiler rooms of the ship that could be creatively improved for other uses. The Queen occupies 9.7 acres of water-side area and is surrounded by a rock enclosure. The rock enclosure could potentially be improved for pedestrian access.

---

[1] *First Amended Lease and Operations Agreement of Queen Mary, Adjacent Lands and Improvements, Dome and Queen's marketplace (10/29/1998)*

- The Queen Mary controls approximately **22 land-side acres of land,** which is striped for 1,600 surface parking spaces providing parking for the Queen Mary (day visitors, hotel guests, and site staff), for Catalina Classic Cruises, and for a vigorous program of entertainment programming (both as a program location and for attendee parking). The land also hosts the "Queen Mary Marketplace," a dilapidated and largely unused retail space constructed by a prior leaseholder. The parking area includes approximately 750 feet of underutilized shore frontage between the Queen Mary rock enclosure and the Events Park. This parking area represents the primary land-side opportunity for future development of the Queen Mary site. However, the parking area currently generates significant parking and event programming income, so potential future uses must be weighed carefully against the opportunity costs of converting it.

- There are **11.5 acres of water-side development** rights in the cove between the rock enclosure at the bow side of the Queen Mary and the outermost point of the Queen Mary Events Park. This area is naturally protected from weather and could support an expansion of marina-like activities.

- The **"Stinger" submarine** is located within the Queen Mary rock enclosure. The Stinger is a tourist attraction that operates on a ground lease. The submarine contributes minimally to Queen Mary profitability, and its removal from the site should be considered if replacement uses justify moving costs.

- The **"Dome,"** a former hangar covering 135,000 square feet that once housed Howard Hughes's "Spruce Goose," is used as a terminal for Carnival Cruise lines (60 percent of the Dome area) and as a site for staging special entertainment events (40 percent). According to hotel management, events that currently use the Dome could be staged elsewhere on the Queen Mary site should the Dome be deployed for different uses.

- **Carnival Cruise Lines** maintains a cruise ship pier with service facilities, a 1,300-space structured parking facility, 60 percent of the Dome as a passenger terminal, and approximately 14 acres of surrounding land. The operator runs approximately three ships per week sequentially from the facility, with between 1,500 and 2,000 guests boarding and disembarking each trip. The operator has invested heavily in on-site investments, which effectively makes the site unavailable for alternative near-term development through the length of the sub-lease, which runs concurrently with the master lease through July of 2061.

- The **Queen Mary Events Park**, a four-acre oceanfront green space located at the northern end of the site, is included in the Queen Mary ground lease and intended as a location for outdoor special events. Twelve events over 15 days are currently scheduled in the Events Park for 2013, including the Shoreline Jam Musical Festival, Groovefest Music Festival, and the Queen Mary Scot's fest. There is strong potential to increase the value that the Events Park contributes to the ground lease through expanded programming.

- **Catalina Channel Express** operates two charter tour boats at a landing next to the Queen Mary. The operator's sublease is currently being renewed on a year-to-year basis, and because it generates a relatively small amount of income, the use could potentially be moved or terminated to allow higher-value uses for the shoreline area.

- **Island Express Helicopters** provides charter helicopter tours to Catalina Island and along the California coast from a helipad it leases at the south east edge of the Queen Mary site. While the lessee generates a small amount of income for the Master Lease, it is an efficient land use that occupies an otherwise isolated parcel. Furthermore, Island Express can provide a useful complement to potential future hotel and marina developments on site. The operator's sublease runs through July 2025.

In addition to the opportunities and constraints discussed above, there are other site characteristics that may support or obstruct future development. A full summary of strengths, weaknesses, opportunities, and constraints is shown in **Table 1** below.

Table 1 Summary Site Opportunities, Strengths, Weaknesses, and Constraints

Strengths	Weaknesses
• Queen Mary creates unique and exclusive ambience • Views out from aboard Queen Mary and along 750 feet frontage between Queen and Events Park • Queen, Events Park, Dome, and Parking field permit flexibility in staging visitor events • Approximately 460,000[2] annual visitors to QM • Approximately 275,000[3] annual visitors to Carnival Cruise (although few linger on site before or after cruise)	• Isolated location has no immediate trade area from residential or office uses. • No on-site amenities off-board the Queen Mary • Site perceived as difficult to access (despite dedicated exit from 710) • Site perceived as subject to excess noise, light, and pollution from adjacent Port of Long Beach operations • Parking field requires re-paving, and parking circulation requires re-design • Informal entry experience does not strongly showcase the Queen Mary upon arrival
Opportunities	**Constraints**
• 29 acres of developable land area in parking field • Development rights for 11.5 waterside acres located in a protected cove • 750 linear feet of shoreline frontage between Queen Mary Bow and Event Park—up to 1,000 feet to Park's outermost point. • Single lessor and no surrounding neighborhood or office development may allow expedited entitlement and approval process	• Tidelands Trust restrictions limit future uses to those that are visitor-serving or maritime-related (absent a solution involving a rights swap) • Ocean and harbor views and access limited along much of the frontage by the "wall" formed by the Queen Mary, the Dome, and the Carnival Cruise parking structure • Historic designation could limit port side construction heights and on-ship modifications • Catalina Classic Cruises sub-lease on shoreline frontage

Source: Economic & Planning Systems, Inc.

---

[2] Source: Economic & Planning Systems, Inc.

[3] Source: Economic & Planning Systems, Inc.

Demographic Context

The demographic profile of Long Beach residents and residents from nearby cities can provide insight into development potential for the Queen Mary site. The site's location on a peninsula adjacent to the Port of Long Beach results in a low population density within the 1-, 3-, and 5-mile radii, as shown in **Table 2**. In addition, median incomes, home values, and educational attainment are low compared to the County average and adjacent cities.

Several basic conclusions can be drawn from this data. The small trade area undermines potential of the site to support retail uses. This isolation also means the site must function as a destination for dedicated rather than ad-hoc or incidental trips. Expensive-to-construct uses such as residential or hotel must appeal to a demographic that is more affluent than the Long Beach average.

Table 2 Queen Mary Trade Area (2010)

		Radius from Queen Mary			Adjacent Cities		
	Long Beach	1 Mile	3 Mile	5 Mile	Rancho Palos Verdes	Seal Beach	LA County
Overview							
Total Population	462,257	2,635	171,335	329,844	41,643	24,168	9,818,605
Average Household Size	2.9	1.6	2.6	2.7	2.8	1.9	3.1
Median Household Income	$47,815	$53,093	$32,116	$40,861	$114,340	$58,990	$55,811
Median Home Value	$298,500	$434,354	$439,178	$516,176	$860,000	$685,000	$333,000
Home Ownership	41.4%	43.9%	19.3%	31.1%	81.5%	77.2%	48.6%
Median age	34	42	31	33	48	58	35
Highschool Education or Greater	79%	97%	74%	78%	98%	94%	

Source: Census, CoStar/ESRI, Economic & Planning Systems, Inc.

Current Queen Mary Performance

The current management team has made substantial gains in the Queen Mary's performance, nearly doubling gross operating income from 2011 to 2012, as indicated in **Table 3**. This success is due mainly to incremental gains in occupancy and performance of ancillary revenue sources. While estimated 2012 hotel visitors total nearly half a million, as shown in **Table 4**, only 23 percent of these were hotel guests. The vast majority of the remainder bought tickets for scheduled events. Despite the preponderance of out-of-town visitors to the hotel, event-driven ticketing makes site use (excluding Carnival Cruise customers) strongly local.

A comparison of the Queen Mary's performance with its competitive set illustrates the uniqueness of its current business model. The competitive set, according to Smith's Travel Research, consists mainly of convention-focused and adjacent hotels across the harbor. Because of the relative isolation of the Queen Mary site, it cannot compete effectively for convention business. This is illustrated, as shown in **Table 5**, by the Queen Mary's comparative dependence on Transient guests, who are described by hotel management as including week-end oriented travelers, travelers on romantic overnight getaway trips, and travelers looking to check off a bucket list box. Comp hotels serve a much higher proportion of Group and Contract guests, which provide a more reliable and consistent source of room demand and consequently, higher room occupancy and ADR. What little group booking there is for the Queen Mary tends to be in the SMERF (social/military/education/religious/fraternal) categories, which generate lower ADR than do business travel categories.

Table 3 Queen Mary P&L: 2011 and 2012

	2011			2012 (Projected)		
Occupancy %	53%			62%		
Average Daily Rate	$122			$126		
RevPAR	$65			$78		
			POR			*POR*
Total Departmental Revenue	**$33,340,619**		**$547.68**	**$45,651,753**		**$641.86**
Total Departmental Expenses	**$17,831,535**		**$292.92**	**$25,865,821**		**$363.67**
Departmental Profit						
Rooms	$4,575,554	30%	$75.16	$5,751,832	29%	$80.87
Food & Beverage	3,658,609	24%	60.10	3,898,680	20%	54.82
Telecom	(155,050)	-1%	(2.55)	(215,755)	-1%	(3.03)
Attractions	2,728,488	18%	44.82	3,083,893	16%	43.36
Diana	-	0%	-	1,060,859	5%	14.92
Dark Harbor	430,023	3%	7.06	115,742	1%	1.63
Chill	-	0%	-	418,905	2%	5.89
Special Events (ship events)		0%	-	49,313	0%	0.69
Parking	1,858,290	12%	30.53	2,989,162	15%	42.03
Tenant (Carnival Cruise mainly)	1,859,461	12%	30.55	2,022,279	10%	28.43
Retail	116,562	1%	1.91	152,743	1%	2.15
Other	437,147	3%	7.18	458,279	2%	6.44
Total Departmental Profit	**$15,509,084**		**$254.77**	**$19,785,932**		**$278.19**
Other Operating Expenses						
Administrative & General	$3,232,105		$53.09	$3,730,352		$52.45
Sales & Marketing	2,097,425		34.45	2,036,991		28.64
Repairs & Maintenance	4,614,810		75.81	3,636,757		51.13
Utilities	1,550,671		25.47	1,518,995		21.36
Total Other Operating Expenses	**$11,495,011**		**$188.83**	**$10,923,095**		**$153.58**
GROSS OPERATING PROFIT	**$4,014,073**		**$65.94**	**$8,862,837**		**$124.61**
Gross Margin	*12.0%*			*19.4%*		
Fixed Expense						
Property Taxes	$264,420		$4.34	$413,457		$5.81
Insurance	595,731		9.79	619,778		8.71
Ground Lease	600,196		9.86	633,531		8.91
Property Improvement	927,607		15.24	1,154,846		16.24
Other	18,574		0.31	12,091		
Management Fee	383,148		6.29	913,035		12.84
Total Fixed Expense	**$2,789,676**		**$45.83**	**$3,746,738**		**$52.68**
NOI	**$1,224,397**		**$20.11**	**$5,116,099**		**$71.93**
Trigen	$565,295		$9.29	$604,290		$8.50
Legal/Professional Fees	137,816		2.26	32,634		0.46
NET OPERATING INCOME	**$521,286**		**$8.56**	**$5,083,465**		**$71.47**
Operating Margin	*1.6%*			*11.1%*		

Source: Evolution Hospitality

Table 4 Estimated 2012 Queen Mary Visitation and Visitor Origin

	Hotel	Events	Day Visitors	Total
Total Guests	106,500 (1)	333,000 (3)	18,300 (5)	**457,800**
Vistor share/total	23%	73%	4%	100%
Share				
Local	8% (2)	95% (4)	50% (6)	**73%**
Non-Local	92%	5%	50%	**27%**

(1) From Year-End 2012 room nights estimate from Evolution * estimated 1.5 guests/room night
(2) Derived from October 2012 YTD numbers, modified to distribute "unknowns" equally by known visitor originations, resulting in a 53% value for California visitors. Then assumed 15% of that 53% were "local" to arrive at 8% number
(3) From 2012 events budget estimate
(4) EPS estimate
(5) EPS estimate: 365 days * 50 guests
(6) EPS estimate

Source: Economic & Planning Systems

Table 5 Queen Mary Performance Breakdown vs. Comp Set 2012

	Queen Mary				Comp *			
	Room	F&B	Other	Total	Room	F&B	Other	Total
Occupancy (October 2012 YTD)	**64%**				**76%**			
2011-12 Change	*20%*				*1%*			
Segmentation								
Transient	50%				38%			
Group	14%				30%			
Contract	0%				8%			
ADR (October 2012 YTD)	**$126.38**	**$210.47**	**$206.76**	**$543.61**	**$141.71**	**$40.95**	**$6.91**	**$189.57**
2011-12 Change	*-0.3%*				*3.5%*			
Segmentation								
Transient	$127.10				$148.88			
Group	$123.90				$150.30			
Contract	$0.00				$72.15			
REVPAR (October 2012 YTD)	**$81.14**	**$135.09**	**$132.71**	**$348.94**	**$106.94**	**$30.90**	**$5.22**	**$143.06**
2011-12 Change	19.8%				4.5%			
Segmentation								
Transient	78%				52%			
Group	22%				42%			
Contract	0%				5%			

* Includes Marriott Courtyard Long Beach Downtown, Hyatt The Pike Long Beach, Hotel Maya by Doubletree, Renaissance Long Beach, Westin Long Beach, Hilton Long Beach & Exec Meet Cntr
Source: STR

Hotel management believes the major impediments to higher occupancy are small (for a modern hotel) staterooms, the lack of pool, health club, or spa amenities for adults and kid-centered attraction for families. An additional demand generator, management argues, would extend average stay lengths beyond the current 1.1 night/stay average.[4]

But while the Queen Mary lags the comp set on REVPAR, it far exceeds competition on the basis of additional F&B and "Other" revenues. This is a result of strong ancillary revenue streams generated by a rich mix of on-board options and on-site event programming. As shown in **Table 5**, the total Queen Mary REVPAR as of October 2012 is nearly $350, more than double the comp set average of $143.06. Event programming utilizes several venues on site—on and off the ship—as well as available on-site parking, to stage events and draw visitors. As shown in **Table 6,** event programming contributes approximately $3.5 million or 15 percent of total departmental profit. A breakdown of event profit in **Table 7** shows that direct income from tickets, parking, and convenience fees generate 89 percent of event profitability, with incremental rooms, food and beverage, and hotel parking making up the remainder.

The 2013 event budget, indicated in **Table 8**, estimates 105 days of programming. An estimate of daily contribution per event day, shown in **Table 7**, is 3,600 event tickets and nearly $34,000 of event profitability per day. An expansion of the programming schedule at the same daily rate could provide significant upside for Queen Mary operations. However, the extent of this upside is possibly contingent on continued availability of onsite parking. While event parking is a meaningful profit contributor, generating 21 percent of event profit or 3.5 percent of total Queen Mary operating profit, its role in influencing overall ticket demand is the critical issue. Here lies a tension between the profit-maximizing potential of the current Queen Mary operating model and the development potential of the entire site. Land use intensification will reduce the amount of surface parking and possibly reduce program revenue potential.

An estimate of site parking needs generated by the 2013 program, shown in **Table 8**, provides some insight into the sensitivity of event profit to parking availability. The model indicates that 44 days or 37 percent of total scheduled days could require the use of off-site parking to address overflow demand. These days are associated with approximately $2 million in projected profit, or 44 percent of the total. Because 2013 projections were based on 2012 (to date) actual performance, which included many events days using supplementary off-site parking, this suggests some customer demand flexibility with regard to available on-site parking. According to representatives at Evolution, the negative effects of using off-site parking can be somewhat mitigated by strong communication and coordination of alternatives. Therefore, if onsite parking can be reduced to support other uses without significantly impacting ticket demand, most event income can be retained. The economic impact of trading surface parking for vertical development will be explored fully in the residual land value analysis to come.

[4] Disney hotels in Anaheim, the gold standard for family destination lodging, average 1.5 nights per stay. By this measure, the Queen Mary has performed respectably.

Table 6 2013 Budget, Departmental Profit, Event vs. Non-Event

	Total	Non-Event-Driven		Event-Driven	
		Net	%/tot	Net	%/tot
Departmental Profit					
Rooms	$6,635,483	$6,412,871	97%	$222,612	3%
Food & Beverage	$4,818,570	$4,656,913	97%	$161,657	3%
Telecom	($305,509)	($295,260)	97%	($10,249)	3%
Attractions	$3,406,735	$3,406,735	100%	$0	0%
Diana	$1,759,384	$1,759,384	100%	$0	0%
Dark Harbor	$300,455	$0	0%	$300,455	100%
Chill	$745,339	$0	0%	$745,339	100%
Special Events	$834,770	$0	0%	$834,770	100%
Parking	$3,235,410	$2,557,181	79%	$678,229	21%
Tenant	1,652,966	$1,652,966	100%	$0	0%
Retail	116,127	$116,127	100%	$0	0%
Other (Including Convenience Fees)	915,991	$319,273	35%	$596,718	65%
Total Departmental Profit	**$24,115,721**	**$20,586,190**	85%	**$3,529,531**	15%

Source: Evolution Hospitality and Economic & Planning Systems

Table 7 Estimated 2013 Daily and Annual Profit Contribution from Queen Mary Events

		Per Event Day (1)			Annual Total (1)			Profit Share
		Revenue	Expense	Profit	Revenue	Expense	Profit	
Tickets/day	3,573							
Parking/day	1,179							
Add'l Rooms/day	26							
Direct								
Event		$110,889	$92,993	$17,896	$11,644,861	$9,764,296	$1,880,564	53%
Event-Driven Parking		$11,635	$5,176	$6,459	$1,221,701	$543,460	$678,241	19%
Convenience Fees		$5,904	$221	$5,683	$619,874	$23,156	$596,718	17%
		$128,428	**$98,390**	**$30,038**	**$13,486,435**	**$10,330,912**	**$3,155,523**	89%
Ancillary								
Event-Driven Rooms		$3,366	$1,246	$2,120	$353,465	$130,853	$222,612	6%
Event-Driven F&B		$5,216	$3,677	$1,540	$547,727	$386,070	$161,657	5%
Event-Driven Telecom		$8	$106	($98)	$832	$11,081	($10,249)	0%
Subtotal		**$8,591**	**$5,029**	**$3,562**	**$902,024**	**$528,004**	**$374,020**	11%
TOTAL		**$137,019**	**$103,418**	**$33,600**	**$14,388,459**	**$10,858,916**	**$3,529,543**	100%

(1) Based on 2013 Budget
Source: Economic & Planning Systems

Table 8 Estimated 2013 Parking Demand

Events						Estimated Daily Parking Demand						Subject to Parking Deficit	
MO	EVENT	EVENT PROFIT(1)	SW PROFIT(1)	Event Days	2013 Tickets(1)	Event	Hotel (2)	Day Guest	**TOTAL**	Available Onsite Surface Parking	Daily Parking Surplus / (Deficit)	**SW Profit on Days with Parking Deficit**	**Number of Event days with Parking Deficit**
Jan	Speed Networking Lunch	$ 859	$ 920	1	35	14	149	50	**213**	1,600	1,387	$ -	0
Feb	Inspiration LA	17,830	23,205	2	1,500	225	149	50	**424**	1,600	1,176	0	0
Feb	Valentine's Day Mixer	463	1,813	1	200	76	149	50	**275**	1,600	1,325	0	0
Feb	QM Scot's Fest	48,221	139,591	2	7,490	1,423	149	50	**1,622**	1,600	(22)	139,591	2
Mar	BIL Conference	9,917	12,892	3	500	50	149	50	**249**	1,600	1,351	0	0
Mar	Shamrock 'N Roll	10,745	33,277	1	1,417	425	149	50	**624**	1,600	976	0	0
Mar	Delicious Food & Beer Festival	(3,253)	21,747	1	4,000	1,440	149	50	**1,639**	1,600	(39)	21,747	1
Apr	Punk Rock Picnic	12,304	35,174	1	4,000	1,440	149	50	**1,639**	1,600	(39)	35,174	1
Apr	Long Beach Business Expo	(740)	1,623	1	350	133	149	50	**332**	1,600	1,268	0	0
Apr	Rock the Queen	3,319	8,874	1	1,010	384	149	50	**583**	1,600	1,017	0	0
Apr	Tour de Cure	4,080	12,001	1	1,000	380	149	50	**579**	1,600	1,021	0	0
May	ToyotaFest	760	18,010	1	3,000	1,188	149	50	**1,387**	1,600	213	0	0
May	West Coast BBQ Classic	6,415	31,343	1	3,989	1,436	149	50	**1,635**	1,600	(35)	31,343	1
May	Poseidon	(10,545)	10,998	1	1,000	320	149	50	**519**	1,600	1,081	0	0
Jun	MECDA	29,300	32,800	3	2,000	213	149	50	**412**	1,600	1,188	0	0
Jun	Wekfest	10,402	28,652	1	3,000	1,140	149	50	**1,339**	1,600	261	0	0
Jun	Ink-N-Iron	121,879	332,655	4	21,000	1,995	149	50	**2,194**	1,600	(594)	332,655	4
Jun	Dia de San Juan Festival	13,013	30,863	1	3,000	1,140	149	50	**1,339**	1,600	261	0	0
Jun	Great Western Terrier Association	7,756	44,199	2	1,500	285	149	50	**484**	1,600	1,116	0	0
Jun	Long Beach Kennel Dog Show	7,868	26,807	2	1,500	285	149	50	**484**	1,600	1,116	0	0
July	4th of July	145,756	224,633	1	3,300	1,254	149	50	**1,453**	1,600	147	0	0
July	Catalina Ski Race Viewing Party	3,877	5,032	1	660	251	149	50	**450**	1,600	1,150	0	0
Aug	Art Deco Festival	14,356	32,770	3	263	35	149	50	**234**	1,600	1,366	0	0
Aug	Shoreline Jam	19,998	51,248	1	5,000	1,900	149	50	**2,099**	1,600	(499)	51,248	1
Sept.	Japanese Classic Car Show	2,585	14,335	1	4,000	1,584	149	50	**1,783**	1,600	(183)	14,335	1
Sept.	Mustang Car Show	2,638	12,513	1	3,500	1,386	149	50	**1,585**	1,600	15	0	0
Dec.	New Year's Eve	181,529	363,688	1	4,000	800	149	50	**999**	1,600	601	0	0
Oct.	Dark Harbor	300,455	733,711	15	70,000	1,848	149	50	**2,047**	1,600	(447)	366,855	8
Dec.	CHILL	745,339	2,099,282	50	220,000	1,742	149	50	**1,941**	1,600	(341)	1,049,641	25
All	2013 Filming	175,000	227,500	15	225	6	149	50	**205**	1,600	1,395	0	0
	Total	**$ 1,882,125**	**$ 4,612,156**	**120**	**372,214**							**$ 2,042,589**	44
												44%	37%

(1) Based on 2013 Draft Budget Worksheet; "SW Profit," as defined by Evolution, adds net operating income for events to gross revenue from incremental hotel stays
(2) 65% occupancy * .4 cars/guest * 343 rooms + 60 staff cars

Source: Economic & Planning Systems

Real Estate Types: Potentially Feasible Uses

Large Vessel Marina

As shown by the Corrough Consulting Group in the attached report, there is substantial unmet regional and international demand supporting a potential Long Beach-based marina focused on large yachts in the range of 80 to 250 feet. This range of vessel berthing and related services is not adequately served by existing or proposed regional marina facilities, with a deficit of 80-100 berths in this range expected to continue indefinitely.[5]

The Queen Mary site is usefully positioned above San Diego and Newport Beach large-vessel marinas and near the increasingly popular large-vessel destination of Catalina Island. As such, it

[5] In contrast, regional market demand for smaller vessel marina berthing (under 80 feet) has contracted during the recession, with high vacancies at existing facilities. The small-berth marina market is expected to recover very slowly and will generate little-to-no new demand for facility construction for some time, and is thus not a good candidate for the Queen Mary site.

would likely function as a home-berth marina or a stop-over marina, rather than as a destination marina in its own right. The Catalina Landing site across the harbor from the Queen Mary has also been considered as a potential large-vessel marina but is believed inferior for a number of reasons, primarily that the location north of the Queensway Bridge prevents access from middle-to-upper-end vessels.

The shoreline frontage between the rock enclosure at the bow of the Queen Mary and the outermost point of the Events Park provides nearly 1,000 linear feet that can conceivably support up to 14 mega-yachts or a large number of smaller (but still longer than 80 feet) vessels. The location offers views out and visibility in valued by owners of large private vessels, and the scale potential may have agglomeration advantages, as owners of large vessels value being able to gather in groups.

Technically, the site has adequate existing water depths requiring no dredging for construction and will require only occasional maintenance dredging. While the location is subject to occasional winter current and debris flows from the LA River into Queensway Bay, this can be mitigated by proper design and storm weather operational measures. The marina would also require a service and support facility, which would provide all the functions of a high-end yacht club at a small scale. According to the Corrough Consulting Group, 2.5 acres would be sufficient land area for such a facility, which would generate minimal parking demand.

Large vessel marinas can generate significant revenue: competitive pressure is low, slip rental, servicing, and security fees are high, and owners are generally price-insensitive. Operating margins can be as high as 50 percent to 75 percent. As a potential “stopover” or “home berth” marina, there is little potential for a large-vessel marina on the Queen Mary site to generate additional indirect revenues (such as from on-site hotel or retail uses), as vessel parties will typically travel off the site shortly after arrival. However, a large vessel marina could strengthen the site’s “brand” and provide a complementary attraction to the Queen Mary, especially in conjunction with a public shoreline promenade, and this may increase the viability of the site for additional development.

Hotel

A small luxury hotel of 150 rooms or less providing conferencing facilities, amenities such as a health club and day spa, and modern up-scale rooms, could provide an alternative to the generally small state rooms at the Queen Mary without cannibalizing revenues. An upscale hotel—four stars or higher—would serve a customer segment that does not currently patronize the Queen. The hotel’s facilities would allow business conferences to be hosted on site, which could take advantage of the Queen Mary, Catalina Cruise landing, and proposed large-vessel marina for program enhancements. The hotel’s lobby, food and beverage options, and amenities could provide the Queen Mary site with a *defacto* gathering place that, if connected with a promenade or other public space, could further help activate the site.

Market factors for an onsite hotel are generally favorable. Since the economic recovery began in 2010, the travel & tourism sector outperformed the U.S. economy both in Southern California and nationally. Overseas travel to the U.S. set new records in driving this growth, supplemented by steady but modest growth in domestic travel.[6] As a result, as indicated in **Table 9,** occupancy and REVPAR rates have fully recovered from the recession.

Table 9 Los Angeles County Historical Hotel Market Performance

Year	Annual Supply	% change	Occupied Rooms	% change	Market Occupancy	ADR	% change	REVPAR	% change
2007	35,607,575		27,401,678		77.0%	165.57		127.41	
2008	35,178,700	-1%	26,112,428	-5%	74.2%	170.87	3%	126.83	0%
2009	34,804,210	-1.1%	23,413,865	-10.3%	67.3%	151.31	-11.4%	101.79	-19.7%
2010	36,215,440	4.1%	25,850,980	10.4%	71.4%	153.54	1.5%	109.60	7.7%
2011	36,358,702	0.4%	27,277,951	5.5%	75.0%	163.04	6.2%	122.32	11.6%
2012F	36,103,567	-0.7%	28,041,704	2.8%	77.7%	171.54	5.2%	133.24	8.9%
2013F	36,273,759	0.5%	28,293,097	0.9%	78.0%	179.78	4.8%	140.23	5.2%
CAAG	0.3%		0.5%			1.4%		1.6%	

Source: PKF Consulting

The rate recovery in the travel and tourism sector has differed by segment. Tier 1 (over $400 per night) properties have achieved record high occupancy levels, as detailed in **Table 10**, and coastal destination resorts have also rebounded strongly, as shown in **Table 11**. More affordable properties, on the other hand, are experiencing slower ADR recovery. Overall, according to analysts, Southern California sector fundamentals are positive, driven by corporate profits, growing international visitation, and limited new supply.

Table 10 Southern California "First Tier" Hotel Historical Market Performance

Year	Annual Supply	% change	Occupied Rooms	% change	Market Occupancy	ADR	% change	REVPAR	% change
2007	444,935		282,785		63.6%	523.61		332.79	
2008	525,600	18%	312,691	11%	59.5%	520.73	-1%	309.79	-7%
2009	634,370	20.7%	310,980	-0.5%	49.0%	443.06	-14.9%	217.20	-29.9%
2010	634,370	0.0%	357,606	15.0%	56.4%	451.97	2.0%	254.78	17.3%
2011	634,370	0.0%	396,757	10.9%	62.5%	472.80	4.6%	295.71	16.1%
2012F	634,370	0.0%	452,157	14.0%	71.3%	482.16	2.0%	343.67	16.2%
2013F	634,370	0.0%	465,721	3.0%	73.4%	503.85	4.5%	369.90	7.6%
CAAG	6.1%		8.7%			-0.6%		1.8%	

Source: PKF Consulting

The Long Beach hotel market has mostly but not fully recovered from the recession, as shown in **Table 12**. Forecast 2012 occupancy of 72 percent is below the 2007 level of 74.5 percent, and REVPAR of $94.15 still has a ways to go to recover to the 2007 level of $102.89. Nonetheless,

[6] Lauren Schlau, So. Cal Outlook,Global Tourism Outlook Conference, 2012

the trend has been positive since 2010 and seems to be accelerating. Long Beach rates lag those of the County in general, averaging between 15 percent and 25 percent lower than the County average.

According to STR Analytics, the Queen Mary's comp set (indicated in **Table 13**), includes six three- and four-star hotels located in the Rainbow Harbor area and along East Ocean Boulevard. With the exception of the Maya, the comp set hotels are primarily targeted at servicing the Long Beach Convention Center. Due to its distance from the Convention Center, the Queen Mary gets only a small amount of convention traffic.

Table 11 Southern California "Destination Hotel" Historical Market Performance

Year	Annual Supply	% change	Occupied Rooms	% change	Market Occupancy	ADR	% change	REVPAR	% change
2007	2,514,485		1,770,883		70.4%	326.62		230.03	
2008	2,605,005	4%	1,738,361	-2%	66.7%	333.67	2%	222.66	-3%
2009	2,956,683	13.5%	1,689,055	-2.8%	57.1%	286.01	-14.3%	163.39	-26.6%
2010	3,090,455	4.5%	1,899,073	12.4%	61.4%	277.33	-3.0%	170.42	4.3%
2011	3,090,455	0.0%	2,053,612	8.1%	66.5%	292.66	5.5%	194.47	14.1%
2012F	3,129,875	1.3%	2,215,169	7.9%	70.8%	306.44	4.7%	216.88	11.5%
2013F	3,168,930	1.2%	2,293,887	3.6%	72.4%	323.51	5.6%	234.18	8.0%
CAAG	3.9%		4.4%			-0.2%		0.3%	

Source: PKF Consulting

Table 12 Long Beach Historical Hotel Market Performance

Year	Annual Supply	% change	Occupied Rooms	% change	Market Occupancy	ADR	% change	REVPAR	% change
2007	1,315,095		979,267		74.5%	138.18		102.89	
2008	1,315,095	0%	935,705	-4%	71.2%	138.50	0%	98.54	-4%
2009	1,349,770	2.6%	836,852	-10.6%	62.0%	127.78	-7.7%	79.22	-19.6%
2010	1,430,435	6.0%	920,056	9.9%	64.3%	124.52	-2.6%	80.09	1.1%
2011	1,430,435	0.0%	978,310	6.3%	68.4%	124.31	-0.2%	85.02	6.2%
2012	1,430,435	0.0%	1,032,547	5.5%	72.2%	125.74	1.2%	90.76	6.8%
2013	1,477,155	3.3%	1,063,523	3.0%	72.0%	130.77	4.0%	94.15	3.7%
CAAG	2.0%		1.4%			-0.9%		-1.5%	

Source: PKF Consulting

Table 13 Queen Mary Comp Set

Hotel	Rooms	Stars	Built	Renovated
Queen Mary	314	3	1934	Ongoing
Marriott Courtyard Long Beach Downtown	216	3	1979	
Hyatt The Pike Long Beach	528	3	2009	2012
Hotel Maya by Doubletree	199	4	1974	2009
Renaissance Long Beach	374	4	1986	2004
Westin Long Beach	469	4	1988	2011-2013
Hilton Long Beach & Exec Meet Cntr	398	4	1991	
Total	**2,498**			

Source: STR Analytics, Evolution Hospitality, Economic & Planning Systems Inc.

The strong recent performance by upscale hotels, the general lack of pipeline supply, and the fact that Los Angeles County has a limited number of waterfront conferencing hotels makes prospects for a luxury hotel on the Queen Mary site potentially strong.

Residential

Residential development, for either multi-family or condominiums, represents a challenging but potentially viable use for the Queen Mary site. The case for suitability rests on the argument that the site's views, uniqueness, and proximity to the Queen Mary offer a special and exclusive location for a creative residential development.

In general, Downtown Long Beach is believed to have strong long-term residential development potential due to its oceanside location, accessibility, and proximity to job centers. Some of this potential was reflected at the peak condominium market in 2007 and 2008, as indicated in **Table 14**, when condominium sales in Long Beach reached an average of $528 per square foot for high-end waterfront condominiums and peaked at $871. As elsewhere, the recession influenced residential values significantly, dropping high-end waterfront[7] values to an average of $353 per square foot, but recent data[8] suggests the market has found its bottom and is trending up. These data suggest that the Long Beach condominium market, especially for high-end waterfront units, is capable of supporting prices per square foot of $500 or higher.

Area brokers are currently reporting heavy developer interest in Long Beach for multi-family development. Some of this is due to the intrinsic potential of the Long Beach residential market, and some is connected to the financial markets' "flight to quality," which has identified multifamily as the safest short-term bet in real estate investment. However, even with this demand, rents for newer buildings are averaging roughly $2.30 per square foot, with a high of

---

[2] Includes four newly constructed condominium towers (400 W Ocean, 411 W Seaside, 388 & 488 E Ocean) as well as a small, 10-unit building at 23 4th Place built in early 2012.

[8] According to averages compiled by Zillow, Trulia and Redfin

$3.35. At these rates, it may be difficult for new construction on the Queen Mary site to pencil out. For-sale units have a potentially higher upside, but the condominium market remains depressed, and recovery is expected to lag multifamily for some time.

The arguments against residential development at the Queen Mary site are significant but potentially manageable. The site's isolation and lack of local amenities is a negative differentiation compared with Rainbow Harbor and Downtown Long Beach alternatives, and so a new development would have to counter by offering a very unique experience. The perception of area pollution and noise from the adjacent Port of Long Beach is a potential deterrent, but there are means being successfully deployed (such as air filtering systems and sound-proof glass) to mitigate these impacts. There are many entitled un-built units slated for development in the Rainbow Harbor area, and this potential competitive supply could dilute the market opportunity. However, a highly differentiated product on the Queen Mary site may not have any direct competition. And finally, Tidelands Trust restrictions, which apply to the whole Queen Mary site, prohibit non-maritime, non-visitor serving uses, but if on-site residential development proves to be a critical element of a development program, the City of Long Beach may be able to implement a land rights swap to facilitate it.

Table 14 Downtown Long Beach Residential Market Snapshot

Item	Sq.Ft.	Avg. Price/ Avg. Rent	$/Sq.Ft.	High $/Sq.Ft.	Sample	Sq.Ft.	Avg. Price/ Avg. Rent	$/Sq.Ft.	High $/Sq.Ft.	Sample
For Sale (1)	**2005-2008**					**2009 and Later**				
Long Beach Average	1,563	$605,976	$398	$871	328	1,502	$402,211	$275	$698	274
Weighted Average			$388					$268		
High-End Waterfront	1,418	$748,231	$516	$871	104	1,267	$513,274	$343	$698	74
Weighted Average			$528					$353		
For Rent (2012)	**Building Built Before 2004**					**Building Built After 2004**				
Waterfront Condominiums (2)										
Average	1,156	$2,243	$2.10	$3.19	11	1,018	$2,359	$2.33	$3.35	21
Weighted Average			$1.94					$2.32		

(1) All condominium sales presented are from buildings constructed in 2004 or later.
(2) Includes data from Camden Harbor View, Long Beach Tower, Beach Villa,1900 Ocean, 388 and 488 E Ocean, and 400 W Ocean and represents average rents for the range of units featured.
Sources: CB Richard Ellis Inc. ; Zillow; Trulia; Redfin; Estately; Economic & Planning Systems, Inc.

Real Estate Types: Uses Less Likely to be Feasible

Entertainment

Large-scale destination-oriented "themed" entertainment is not a promising option for the Queen Mary site due to its small size, relative isolation, and the strong existing competition from other themed entertainment options within the larger trade area.

Most themed entertainment options are inefficient land users, as they require a large quantity of horizontal area for attractions and parking. Traditionally, new theme parks have been constructed in areas with cheap and plentiful land (such as originally in Anaheim and Orlando), and over time, complementary land uses formed around them. The available land area on the Queen Mary site is too small and likely to be too expensive to support such uses. Alternative water-side models represented by entities like the Pier in Santa Monica California, the Balboa Fun Zone in Newport Beach California, and the Funtown Amusement Pier in Seaside New Jersey, are historic entities that do not represent the highest and best use ground-up development options in today's climate, let alone a Queen Mary site lacking residential density or a tradition as a vacation destination. Smaller-scale themed entertainment options, such as a water-park, are also inefficient land uses that can be cost-effectively constructed only at above grade.

The trade area around Long Beach for themed destination entertainment includes many formidable competitors, including Disneyland Resorts, Universal Studios, Knott's Berry Farm, the Santa Monica Pier, the Venice Boardwalk, and LA Live, with its full schedule of sports and entertainment programming. Downtown Long Beach itself offers competitors as well, including Rainbow Harbor, the Aquarium, Shoreline Park and Village, and the Pike, which have generally not performed as well as hoped. It's unlikely, given the site constraints and competitive supply, a strong competitive alternative exists for the Queen Mary site.

Finally, there are very few themed entertainment operators with the resources, creativity, clout, and comfort with risk to attempt such a development on the Queen Mary site. Those that do have either made an attempt, operate competing developments, or both.

Retail

Major retail development is not a promising option for the Queen Mary site, given the physical constraints and trade area limitations resulting from the waterside port-adjacent location and relatively small developable area. However, small amounts of complementary retail and a small number of good-quality water-facing off-ship eating and drinking options should be supportable within the larger development plan.

As shown earlier in **Table 2,** the water-side and port-adjacent location has very few residents within the one-mile radius of the site, leading to a relatively low population density within the three-mile radius. Furthermore, the developable site area offers none of the highway or other visibility preferred by retailers. Another potential source of demand includes existing site visitors. Carnival Cruise lines brings approximately 275,000 people to the site per year, but cruise customers generate very little retail demand, as they typically will not linger on-site before or after a cruise. Of the estimated 460,000 other annual visitors to the Queen Mary, 333,000 (73 percent) come for special—often niche-oriented—entertainment events, and the spill-over shopping potential from this group is small as well. The remaining 125,000 site visitors have come for an on-ship experience, and any retail spending captured from this group would likely cannibalize existing retail revenue. As a result of these trade area constraints, major retail opportunities are limited to "destination"-style schemes, but these operate at a scale that typically exceeds the site's developable land area.

In addition to the site's physical constraints, there is significant retail competition at nearby, more established locations. These include the 370,000 feet of retail at the Pike at Rainbow Harbor (which has underperformed), 100,000 square feet in Shoreline Village, City Place

Shopping Center in the revitalizing Downtown Long Beach, and more established trade area shopping centers such as Del Amo Shopping Center, Lakewood Center, and the South Bay Galleria. Some of this competitive dynamic is reflected in City per-capita spending, as shown in **Table 15**. Long Beach per-capita retail spending lags that of the local retail trade area and the County. The most significant trade area leakage categories include apparel, general merchandise, building materials, and automotive-oriented uses. The retail types most generally associated with these categories—mall retail, big box stores, an auto mile—do not align with the available land on the Queen Mary site.

One area of retail leakage that may be promising for the site is restaurant and bar space. There is currently no off-ship alternative to the Queen Mary's eating and drinking venues. Furthermore, there can never be enough (relative to demand) water-side eating establishments in the Los Angeles region. A water-side bar-restaurant with night entertainment options could provide a strong complementary use for the site.

Table 15 City of Long Beach Retail Spending and Possible Leakage

	2010				
	Areas			Possible Retail Leakage	
	City of Long Beach	Local Retail Trade Area(1)	Los Angeles County	Long Beach vs. Trade Area	Long Beach vs. Los Angeles County
Population	494,709	425,515	10,441,080		
Retail Sales/Capita (2010)					
Apparel	$313	$1,236	$643	($923)	($329)
General Merchandise	$613	$2,295	$1,157	($1,682)	($544)
Grocery	$514	$697	$463	($183)	$52
Restaurants and Bars	$1,338	$1,950	$1,367	($612)	($29)
Home Furniture/Appliance	$164	$755	$524	($591)	($360)
Building Materials	$0	$680	$542	($680)	($542)
Auto Dealers and Supply	$460	$1,993	$1,064	($1,533)	($604)
Service Stations	$957	$1,191	$949	($233)	$9
Other Retail	$2,768	$1,910	$1,019	$858	$1,749
Total	**$7,127**	**$12,707**	**$7,727**	**($5,580)**	**($599)**

(1) Includes Carson, Lakewood, Redondo Beach, Seal Beach, Torrance
Source: California Retail Survey 2011, Economic & Planning Systems, Inc.

Office

Downtown Long Beach is not a strong office market in general, and the Queen Mary site has several disadvantages that make on-site office development a weak option. The Queen Mary site is, in the words of one broker, not the right environment for office. Office tenants prefer to cluster in office districts, and they value nearby options for living and eating. No matter what kind of complementary development may occur on the Queen Mary site, it will not equal the nearby walkable amenities and transit options that surround the office towers in Downtown Long Beach's primary office area.

As shown in **Table 16**, the Long Beach downtown office market has been static for some time. Since 1996, no new office buildings have been constructed, and lease rates—even during the 2008 market peak—are low. (The small increase in RBA and building numbers in recent years is the result of adaptive-reuse projects, not new construction.) While vacancy rates fell to 9 percent at the market peak, they have generally stayed at double-digit levels since 1996, hitting 16.9 percent as of the 2012 third quarter. With the expected opening of a new County courthouse building in Downtown Long Beach in 2013, which will add total 545,000 square feet and a significant quantity of office space, competitive supply will be further diluted.

Table 16 Long Beach Downtown Office Market Historical Snapshot

Date	# Bldgs	Total RBA	Vacancy	Average Rent
2012 3Q	265	7,399,128	16.9%	$1.90/fs
2010 3Q	263	7,323,270	14.7%	$1.93/fs
2008 3Q	270	7,360,585	12.6%	$2.02/fs
2006 3Q	271	7,374,133	9.0%	$1.87/fs
2004 3Q	273	7,386,367	12.3%	$1.76/fs
2002 3Q	273	7,386,367	14.2%	$1.80/fs
2000 3Q	274	7,448,543	11.4%	$1.73/fs
1998 3Q	274	7,512,131	14.5%	$1.50/fs
1996 3Q	274	7,512,131	17.7%	$1.41/fs

Source: CoStar, Economic & Planning Systems

Conclusions

As a result of this market study, the team has concluded that a development plan featuring a large-vessel marina, event space, a luxury hotel, residential development, small complementary retail uses, and an integrative plan for public space is potentially feasible for the site given current market conditions and the site's physical characteristics. A draft program and land use plan integrating these findings is shown in **Appendix A.**

In developing a financial proforma to test the feasibility of a program based on these findings and determine the highest potential residual land value, several critical issues will be considered:

- What is the relationship between future income potential from event programming and the availability of surface parking? Does event programming support construction of a structure?
- How critical is the public open space element, which doesn't generate any direct revenue, as an enabler of other desired uses?
- How can Tideland Trust restrictions be managed or swapped out to support potential residential development? Is it financially feasible to do so?

Market Analysis Appendix A

Appendix A.1: DRAFT Development Program with Phasing

Proposed Uses	Metric	Current Uses #	Current Uses Prkng	Phase 1 #	Phase 1 Prkng	Phase 2 #	Phase 2 Prkng
Land Area Proposed Development							
Events Area	*Sq.Ft.*			194,877	520	194,877	520
Hotel	*Keys*			150	58	150	58
Marina Support	*Sq.Ft.*			75,700		75,700	
Park and Pavilion	*Sq.Ft.*			21,521		21,521	
Ancillary Retail	*Sq.Ft.*			15,000		15,000	
Circulation, Plaza, Helipad, Surface Parking	*Sq.Ft.*	1,273,259	1,600	890,802	820	611,582	35
Proposed Parking Structure	*Sq.Ft.*					93,000	1,700
Residential	*Units*					370	740
Total Parking (1)			1,600		1,398		3,053
Water Area Proposed Development							
Large-Vessel Marina	*Berths*			14		14	

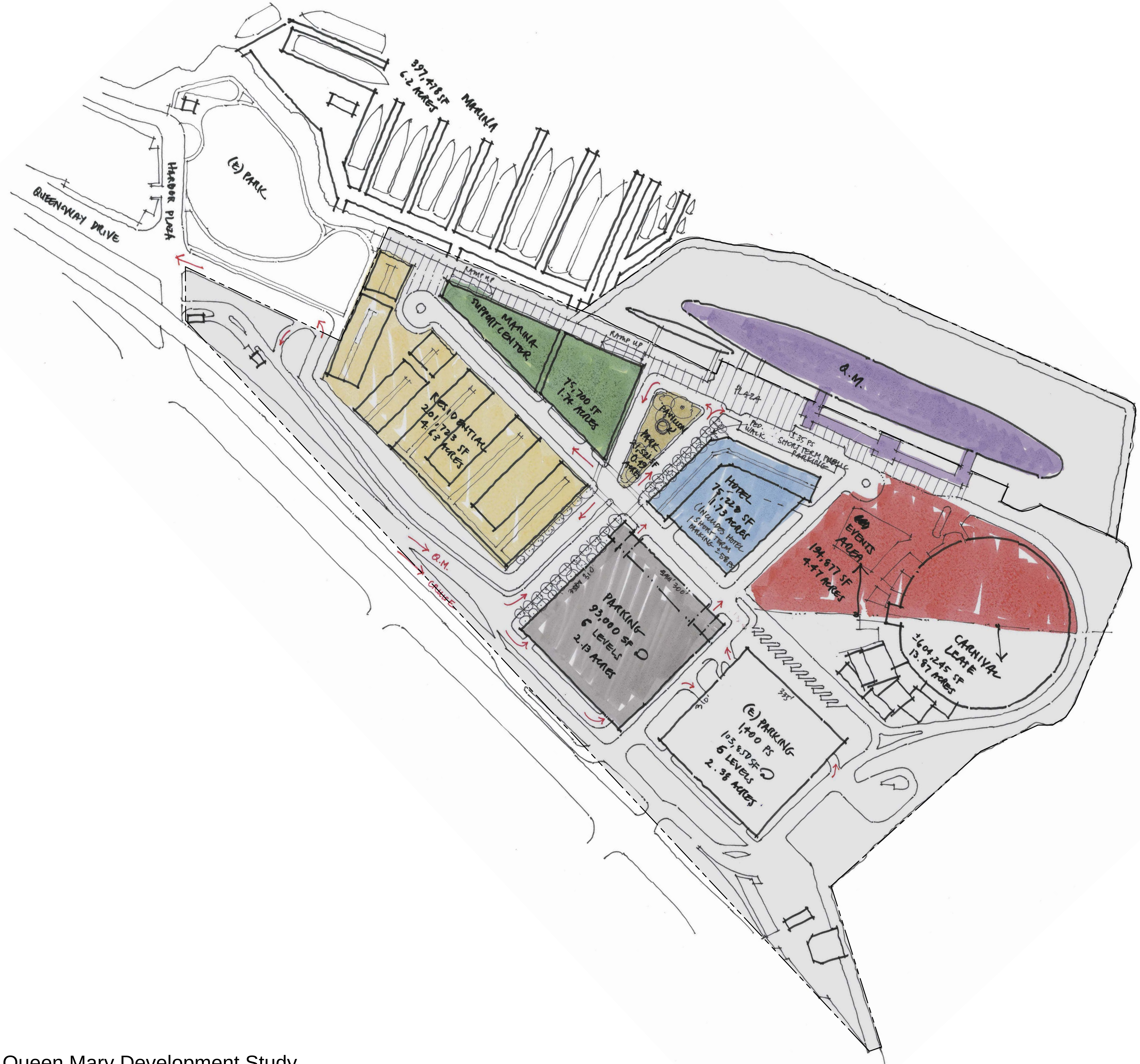
(1) Does not include Carnival Cruise structure, which adds 1,300 spaces
Source: Studio 111, Economic & Planning Systems

Appendix A.2: DRAFT Land Program with Phasing

	Acres: Current Uses	Acres: Proposed Uses Phase 1	Acres: Proposed Uses Phase 2
Land Area			
Carnival Cruise Lease	14.37	14.37	14.37
Queen Mary			
Events Area	0.0	**4.47**	4.47
Hotel	0.0	**1.73**	1.73
Marina Support	0.0	**1.74**	1.74
Park and Pavilion	0.0	**0.49**	0.49
Circulation, Plaza, Helipad, Surface Parking	29.2	**20.8**	**14.04**
Proposed Parking Structure	0.0	0.0	**2.13**
Residential	0.0	0.0	**4.63**
Total	43.6	43.6	43.6
Water Area			
Queen Mary (1)	9.71	9.71	9.71
Proposed Marina	0.0	**6.2**	6.2
Other Available	10.3	4.1	4.1
Total	20.0	20.0	20.0

(1) Assumes Stinger submarine left in place
Source: Studio 111, Economic & Planning Systems

Market Analysis Appendix B



Queen Mary Development Study
Preliminary Concept
12.14.12
S111

1" = 100'-0"
0 100 200

Market Analysis Appendix C

[Insert The Corrough Consulting Group (TCCG) Report]

APPENDIX B:

Financial Analysis Assumptions and Backup Tables

The Economics of Land Use

CELEBRATING 30 YEARS

Table of Tables
Conceptual Program and Development Feasibility
Queen Mary Development Feasibility and Lease Amendment; EPS #124029

Table 1
Development and Leasehold Value Summary: Current Rent Basis ($2013)
Queen Mary Development Feasibility and Lease Amendment; EPS #124029
Current Ground Lease Basis

	Baseline	**Scenario 1: Partial Build-Out (1)**						**Scenario 2: Full Build-Out (2)**			
	Budgeted 2013 Queen Mary	Queen Mary (3)	Marina	Hotel	Retail	**Total New Construction**	**Total With Queen Mary**	Queen Mary(4)	Multifamily	**Total New Construction (Scenario 1 + Multifamily)**	**Total With Queen Mary**
Residual Land Value											
Capitalized Value (Before Ground Rent)	**$58,719,370**	$54,607,215	$20,519,693	$50,629,322	$5,051,001	**$76,200,017**	**$130,807,232**	$47,762,501	$143,525,184	**$219,725,201**	**$267,487,702**
Cap Rate Assumption	***8.50%***	*8.50%*	*8.00%*	*8.00%*	*7.00%*			*8.50%*	*5.75%*		
Vertical Development Cost			($15,339,734)	($40,167,543)	($4,597,917)	**($60,105,194)**	**($60,105,194)**		($122,908,327)	**($183,013,521)**	**($183,013,521)**
Developer Target Return on Cost			*13.5%*	*14.0%*	*9.0%*	***13.5%***			*13.0%*	***13.2%***	
Developer Targeted Proceeds			($2,070,864)	($5,623,456)	($413,812)	**($8,108,133)**	**($8,108,133)**		($15,978,083)	**($24,086,215)**	**($24,086,215)**
Residual Land Value (After Developer Target Return)	**$58,719,370**	$54,607,215	$3,109,096	$4,838,323	$39,272	**$7,986,691**	**$62,593,906**	$47,762,501	$4,638,774	**$12,625,464**	**$60,387,966**
Estimated Return (Current Ground Lease Basis)											
Capitalized Value (With Ground Rent)	**$26,944,657**	$23,814,144	$18,790,218	$43,617,760	$4,722,040	**$67,130,018**	**$90,944,162**	$18,678,257	$131,303,456	**$198,433,474**	**$217,111,731**
Cap Rate Assumption	***8.50%***	*8.50%*	*8.00%*	*8.00%*	*7.00%*			*8.50%*	*5.75%*		
Vertical Development Cost			($15,339,734)	($40,167,543)	($4,597,917)	**($60,105,194)**	**($60,105,194)**		($122,908,327)	**($183,013,521)**	
Net Proceeds	**$26,944,657**	$23,814,144	$3,450,485	$3,450,217	$124,123	**$7,024,825**	**$30,838,968**	$18,678,257	$8,395,129	**$15,419,953**	**$34,098,210**
Return on Cost			*22.5%*	*8.6%*	*2.7%*	***11.7%***			*6.8%*	***8.4%***	
Annual Ground Rent (Current and Proposed Alternatives)											
Current Ground Lease Basis	**$2,541,977**	$2,463,446	$138,358	$560,925	$23,027	**$722,310**	**$3,185,756**	$2,326,740	$702,749	**$1,425,060**	**$3,751,799**
Proposed Ground Lease Basis	**$1,411,068**	$1,205,795	$217,637	$338,683	$2,749	**$559,068**	**$1,764,863**	$876,562	$324,714	**$883,783**	**$1,760,345**
City Portion	***$522,214***	*$481,159*	*$43,527*	*$67,737*	*$550*	***$111,814***	***$592,973***	*$415,312*	*$64,943*	***$176,757***	***$592,069***
Master Lessee Portion (Development Rights)	***$888,854***	*$724,636*	*$174,109*	*$270,946*	*$2,199*	***$447,255***	***$1,171,890***	*$461,250*	*$259,771*	***$707,026***	***$1,168,276***
Total New Annual General Fund Revenues to the City						**$2,128,332**				**$2,379,131**	
Infrastructure Costs (financed by CFD allocated to new construction)						**$5,884,709**				**$7,348,181**	

(1) Marina, Hotel, and Retail plus amenities including 1,191 spaces of surface parking, park/pavilion, pedestrian plaza, and a parkable events area
(2) Residential uses added to Scenario 1
(3) In QM Scenario 1, parking available for events is reduced from 1600 to 1191, which requires the use of off-site parking, reducing parking profit and ticket sales
(4) In QM Scenario 2, parking available for events is reduced from 1600 to 370, which requires the use of off-site parking, reducing parking profit and ticket sales

Source: Economic & Planning Systems

Table 2
Development and Leasehold Value Summary: Proposed Rent Basis ($2013)
Queen Mary Development Feasibility and Lease Amendment; EPS #124029
Proposed Ground Lease Basis

	Baseline	**Scenario 1: Partial Build-Out (1)**						**Scenario 2: Full Build-Out (2)**			
	Budgeted 2013 Queen Mary	Queen Mary (3)	Marina	Hotel	Retail	**Total New Construction**	**Total With Queen Mary**	Queen Mary(4)	Multifamily	**Total New Construction (Scenario 1 + Multifamily)**	**Total With Queen Mary**
Residual Land Value											
Capitalized Value (Before Ground Rent)	**$58,719,370**	$54,607,215	$20,519,693	$50,629,322	$5,051,001	**$76,200,017**	**$130,807,232**	$47,762,501	$143,525,184	**$219,725,201**	**$267,487,702**
Cap Rate Assumption	***8.50%***	*8.50%*	*8.00%*	*8.00%*	*7.00%*			*8.50%*	*5.75%*		
Vertical Development Cost			($15,339,734)	($40,167,543)	($4,597,917)	**($60,105,194)**	**($60,105,194)**		($122,908,327)	**($183,013,521)**	**($183,013,521)**
Developer Target Return on Cost			*13.5%*	*14.0%*	*9.0%*	***13.5%***			*13.0%*	***13.2%***	
Developer Targeted Proceeds			($2,070,864)	($5,623,456)	($413,812)	**($8,108,133)**	**($8,108,133)**		($15,978,083)	**($24,086,215)**	**($24,086,215)**
Residual Land Value (After Developer Target Return)	**$58,719,370**	$54,607,215	$3,109,096	$4,838,323	$39,272	**$7,986,691**	**$62,593,906**	$47,762,501	$4,638,774	**$12,625,464**	**$60,387,966**
Estimated Return (Proposed Ground Lease Basis)											
Capitalized Value (With Ground Rent)	**$41,081,020**	$39,534,781	$17,799,235	$46,395,790	$5,011,729	**$69,206,753**	**$108,741,534**	$36,805,474	$137,877,981	**$207,084,734**	**$243,890,209**
Cap Rate Assumption	***8.50%***	*8.50%*	*8.00%*	*8.00%*	*7.00%*			*8.50%*	*5.75%*		
Vertical Development Cost			($15,339,734)	($40,167,543)	($4,597,917)	**($60,105,194)**	**($60,105,194)**		($122,908,327)	**($183,013,521)**	
Net Proceeds	**$41,081,020**	$39,534,781	$2,459,501	$6,228,246	$413,812	**$9,101,560**	**$48,636,341**	$36,805,474	$14,969,653	**$24,071,213**	**$60,876,688**
Return on Cost			*16.0%*	*15.5%*	*9.0%*	***15.1%***			*12.2%*	***13.2%***	
Annual Ground Rent (Current and Proposed Alternatives)											
Current Ground Lease Basis	**$2,541,977**	$2,463,446	$138,358	$560,925	$23,027	**$722,310**	**$3,185,756**	$2,326,740	$702,749	**$1,425,060**	**$3,751,799**
Proposed Ground Lease Basis	**$1,411,068**	$1,205,795	$217,637	$338,683	$2,749	**$559,068**	**$1,764,863**	$876,562	$324,714	**$883,783**	**$1,760,345**
City Portion	***$522,214***	*$481,159*	*$43,527*	*$67,737*	*$550*	***$111,814***	***$592,973***	*$415,312*	*$64,943*	***$176,757***	***$592,069***
Master Lessee Portion (Development Rights)	***$888,854***	*$724,636*	*$174,109*	*$270,946*	*$2,199*	***$447,255***	***$1,171,890***	*$461,250*	*$259,771*	***$707,026***	***$1,168,276***
Total New Annual General Fund Revenues to the City						**$2,128,332**				**$2,379,131**	
Infrastructure Costs (financed by CFD allocated to new construction)						**$5,884,709**				**$7,348,181**	

(1) Marina, Hotel, and Retail plus amenities including 1,191 spaces of surface parking, park/pavilion, pedestrian plaza, and a parkable events area
(2) Residential uses added to Scenario 1
(3) In QM Scenario 1, parking available for events is reduced from 1600 to 1191, which requires the use of off-site parking, reducing parking profit and ticket sales
(4) In QM Scenario 2, parking available for events is reduced from 1600 to 370, which requires the use of off-site parking, reducing parking profit and ticket sales

Source: Economic & Planning Systems

Table 3
Public Benefits ($2013)
Queen Mary Development Feasibility and Lease Amendment; EPS #124029

	Scenario 1: Partial Build-Out (1)	**Scenario 2: Full Build-Out (2)**
City General Fund Revenues		
Property Taxes	$1,109,279	$1,138,714
Property Tax in Lieu of VLF	$475,490	$488,107
Other Taxes		
Sales Tax	$25,159	$50,398
Utility Users Tax	$7,440	$71,902
Transient Occupancy Tax	$480,431	$480,431
Business License Tax	$16,794	$16,794
Franchise Fees	$4,396	$42,483
Licenses and Permits	$3,369	$32,561
Fines and Forfeitures	$3,229	$31,204
Charges for Services	$2,746	$26,537
Total Annual General Fund Revenues	**$2,128,332**	**$2,379,131**
Public Infrastructure Costs (financed by CFD allocated to new construction)		
Site Preparation (excl. development pads)	$2,188,307	$2,657,106
Improvements	$1,738,734	$2,248,166
Parking	$1,060,000	$1,322,000
Additional Costs	$897,667	$1,120,909
Total Infrastructure Costs	**$5,884,709**	**$7,348,181**

(1) Marina, Hotel, and Retail plus public amenities including surface parking, park/pavilion, pedestrian plaza, and a parkable events area

Source: Economic & Planning Systems

Table 4
Proposed Development Program and Phasing
Queen Mary Development Feasibility and Lease Amendment; EPS #124029

Proposed Uses	Baseline		Partial Build-Out (Scenario 1)(2)					Full Build-Out (Scenario 2)(3)					
	Total Sq.Ft.	Parking Spaces(1)	Total Sq.Ft.	Retail Sq.Ft.	Hotel Keys	Marina Berths	Parking Spaces(1)	Total Sq.Ft.	Retail Sq.Ft.	Hotel Keys	Marina Berths	Res Units	Parking Spaces(1)
Vertical Construction on Development Pads													
Boutique Hotel			128,640		150		150	128,640		150			150
Marina Support Facility			30,974			14	156	30,974			14		156
Ancillary Retail			15,390	15,390				15,390	15,390				
Residential								434,090				370	740
Total New Vertical			175,004	15,390	150	14		609,094	15,390	150	14	370	
Horizontal Site Improvements													
Surface Parking (4)	664,447	1,670	475,456				900						370
Events Area (Parkable)	105,280	40	109,201				291	109,201					291
Park and Pavilion			15,686					15,686					
Circulation (5)	202,854		91,471					215,731					
Plaza			66,577					69,675					0
Total Site Improvements	972,581		758,391					410,293					
Total Parking		1,710					1,497						1,707

(1) Does not include 1,400 dedicated parking spaces in Carnival Cruise structure; all parking calculated at 375 Sq.Ft./space
(2) Adds Marina, Hotel, and Retail uses, and public amenities including surface parking, park/pavilion, pedestrian plaza, and a parkable events area
(3) Adds Marina, Hotel, Retail and Residential uses, and public amenities including a park/pavilion, pedestrian plaza, and a parkable events area
(4) Excludes dedicated parking spaces for specific uses (i.e. surface parking associated with the hotel, or existing events space); only includes "public" parking.
(5) Circulation includes roads not sidewalks. Does not include helipad area or part of Carnival Cruise Lease & Parking

Source: Studio 111, Economic & Planning Systems

Table 5
Proposed Land Program and Phasing
Queen Mary Development Feasibility and Lease Amendment; EPS #124029

Uses	**Scenarios (ac)**		
	Current	Scenario 1 (Partial Buildout)	Scenario 2 (Full Buildout)
Developable Land Area			
Hotel	0.00	2.75	2.75
Marina and Support Facility	0.00	1.49	1.49
Ancillary Retail	0.00	0.54	0.54
Residential	0.00	0.0	4.79
Parking Structure	0.00	0.0	0.00
Surface Parking	15.25	10.91	3.20
Events Area (Parkable)	2.42	2.51	2.51
Park and Pavilion	0.00	0.49	0.49
Circulation	4.66	2.10	4.95
Plaza	0.00	1.53	1.60
Total	22.33	22.33	22.33
Developable Water Area			
Queen Mary[1]	9.71	9.71	9.71
Proposed Marina	0.00	6.20	6.20
Other Available	10.29	4.09	4.09
Total	20.00	20.00	20.00

(1) Assumes Stinger submarine remains in place
Source: Studio 111, Economic & Planning Systems

Table 6
Marina Proforma
Queen Mary Development Feasibility and Lease Amendment; EPS #124029
Proposed Ground Lease Basis

REVENUE

Berthing Revenues	Berths	LF/Berth	Total LF	Rate/LF/Yr		
Megayacht Berths	12	234	2,810	558.58	1,569,600	
Megayacht Temporary Side Ties	2	185	370	360.00	133,200	
Subtotal Basic Berthing Revenues	14	419	3,180		1,702,800	$121,629 /berth
Additional Fees		1,702,800	x	33.5%	570,000	$40,714 /berth
Total Berthing					2,272,800	$162,343 /berth
Other Marina Dock Revenues		1,702,800	x	2.11%	36,000	$2,571 /berth
Marina Land Revenues						
Club/Facility/Service Fees		1,702,800	x	34.06%	580,000	
Parking Permits/Revenues		1,702,800	x	1.41%	24,000	
Subtotal Marina Land					604,000	$43,143 /berth
Gross Income					2,912,800	$208,057 /berth
Vacancy Allowance		2,912,800	x	5%	(145,640)	
NET EFFECTIVE INCOME					2,767,160	$197,654 /berth
Marina Operating Expenses						
Operating Expenses		2,767,160	x	25%	(691,790)	
Reserve		2,767,160	x	5%	(138,358)	
RE Tax	15,339,734	@	100%	1.06%	(162,601)	
Ground Lease Payment					(217,637)	
CFD Special Tax					(132,835)	
STABILIZED NOI BEFORE DEBT SERVICE					**1,423,939**	$101,710 /berth

DEVELOPMENT COSTS ($000)					**1,641,575**	
Site						
On-Site Costs (Demo,grading,pad prep)	64,952	sf @	$6.00 /sf	390		
Construction Period Ground Rent	217,637	0.0%	@ 24 mos	0		
Prevailing Wage Premium	390	x	5.0%	19		
Sitework Contingency	409	x	10.0%	41		
Subtotal Site Cost	64,952	sf			**$450**	$32 /berth
Hard and Soft Costs: Water Facilities						
Marina and Shoreside Access and Utilities	3,180	LF @	$1,591	5,060		
Contractor	$5,060	HC x	12.0%	607		
Prevailing Wage Premium	$5,667	x	5.0%	283		
Contingency	$5,060	HC x	10.0%	506		
Subtotal Water Facility Hard Costs					**$6,457**	$461 /berth
Hard and Soft Costs: Land Facilities						
Vertical Improvements (incl. contractor fee)	30,974	sf @	$160	4,956		
Parking (1)						
Surface	121	sp @	$2,000	242		
Prevailing Wage Premium	$5,198	x	15.0%	780		
Development Management	$5,978	x	3.0%	179		
Hard Cost Contingency	$6,157	x	10.0%	616		
Subtotal Land Facility Hard Costs					**$6,773**	$484 /berth
Other Soft Costs						
Start-Up Costs				700		
Subtotal Soft Costs					**$700**	$50 /berth
Total Costs Before Financing					**$14,379**	$1,027 /berth

Table 6
Marina Proforma
Queen Mary Development Feasibility and Lease Amendment; EPS #124029
Proposed Ground Lease Basis

Financing Costs						
Construction Loan, % of Cost	$14,379	Total Cost x	65%	9,346		
Interest	$9,346	Constr Ln x	6.00%	@ 24 mos	673	
Loan Fees - Outside, Legal, Etc.	$14,379	Constr Ln x	2.0%		288	
Subtotal Financing Costs					**$961**	$69 /berth
NET PROJECT COST					**$15,340**	$1,096 /berth
Implied Equity Requirement					**$5,993**	$428 /berth
Target Return on Cost	$15,340	Total Cost x	13.5%		**$2,071**	

ILLUSTRATIVE CALCULATIONS

Financial Feasibility ($000)	
Stabilized NOI (includes assumed ground rent)	1,424
Market Capitalization Rate	8.00%
Capitalized Value	17,799
Less: Total Development Cost	(15,340)
Less: Targeted Return	(2,071)
Surplus / (Gap)	**$389**
Surplus or (Gap) as a % of Total Cost	3%
Project Returns: Proposed Ground Lease Basis	
Stabilized NOI (includes assumed ground rent)	$1,424
Market Capitalization Rate	8.0%
Capitalized Value	$17,799
Less: Total Development Cost	($15,340)
Net Proceeds	$2,460
Net Return on Cost	16.0%
Total Equity	$5,993
Net Return on Equity	41.0%

Annual Ground Lease Payments:	Alternative				
Assumed for Proforma	2	Proposed Ground Lease Basis			**$217,637**
Possible Alternative Approaches	**Alternative**				
Current Ground Lease Basis	1				
The lesser of (positive value only):					**$138,358**
(a) Gross Receipts Basis					
Gross Receipts		$2,767,160	5.0%	**$138,358**	
(b) Gross Operating Revenue Basis					
Gross Receipts				$2,767,160	
Deduction: Tenant's Operating Expenses (2)				($992,749)	
Deduction: 9% of Development Costs (3)		$15,339,734	9.0%	($1,380,576)	
Net				**$393,835**	
Proposed Ground Lease Basis	2				
Stabilized NOI (before ground rent)				$1,641,575	
Market Capitalization Rate				8.00%	
Capitalized Value				$20,519,693	
Less: Total Vertical Development Cost				($15,339,734)	
Less: Targeted Developer Return on Cost			13.50%	($2,070,864)	
Residual Land Value				$3,109,096	
Ground Rent (Subordinated to developer return on vertical costs)			7.0%		**$217,637**
City Portion			20%		$43,527
Master Lessee Portion (Development Rights)			80%		$174,109

Notes
(1) 35 out of 156 total spaces included in hard costs as ground floor parking
Source: The Corrough Consulting Group, Economic & Planning Systems, Inc.

Table 7
Hotel Proforma
Queen Mary Development Feasibility and Lease Amendment; EPS #124029
Proposed Ground Lease Basis

REVENUE						
Gross Square Feet	128,640					
Efficiency Factor	70%					
Leasable Square Feet	90,048					
Hotel:	# Rooms	GSF/Rm	ADR	Occup %	Total	
Rooms	150	600	$195.00	75.0%	7,897,500	
F&B (per occupied room)			$57.00		2,308,500	
Other Revs (per occupied room)			$25.00		1,012,500	
Parking (per occupied room)			$0.00		0	
Scheduled Room Revenue	150	90,048			**$11,218,500**	
Hotel Operating Expenses:						
Dept. Expenses, % of Revs	25%				(2,804,625)	
Operating Expenses	20%				(2,243,700)	
Base Mgmt & Franchise Fees	7.0%				(785,295)	
Fixed Expenses (including reserves)	5.0%				(560,925)	
RE Taxes	$40,167,543	@	100%	1.06%	(425,776)	
Ground Lease Payment					(338,683)	
CFD Special Tax					(347,833)	
Total Hotel Operating Expenses (% excluding ground lease)					**(7,506,837)**	
Stabilized NOI				**33%**	**$3,711,663**	

DEVELOPMENT COSTS ($000)						
Site						
On-Site Costs (Demo,grading,pad prep)	119,951	sf @	$6.00 /sf	720		
Construction Period Ground Rent	338,683	0.0%	@ 24 mos	0		
Prevailing Wage Premium	720	x	5.0%	36		
Sitework Contingency	756	x	10.0%	76		
Subtotal Site Cost	119,951	sf			**$831**	$5,542 /rm
Hard Costs						
Vertical Improvements	128,640	sf @	$135	17,366		
Hotel FF&E	150	rms @	$30,000	4,500		
Parking						
Structure/Podium	0	sp @	$20,000	0		
Surface	150	sp @	$2,000	300		
Prevailing Wage Premium	$22,166	x	15.0%	3,325		
Hard Cost Contingency	$36,119	x	10.0%	3,612		
Subtotal Hard Costs					**$29,103**	$194,022 /rm
Soft Costs						
A&E	$29,103	Hard Costs	10.0%	2,910		
Other Professional Fees	$29,103	Hard Costs	1.0%	291		
Predevelopment Costs	$29,103	Hard Costs	1.0%	291		
Permits and Impact Fees	$29,103	Hard Costs	3.0%	873		
Insurance, Taxes, and Legal	$29,103	Hard Costs	2.5%	728		
Pre-opening, Staff Training, Working Capital	150	rms @	$5,000	750		
Marketing - Hotel	150	rms @	$2,000	300		
Development Management	$29,103	Hard Costs	3.0%	873		
Soft Cost Contingency	7,016	x	10.0%	702		
Subtotal Soft Costs					**$7,718**	$51,452 /rm
Total Costs Before Financing					**$37,652**	$251,016 /rm

Table 7
Hotel Proforma
Queen Mary Development Feasibility and Lease Amendment; EPS #124029
Proposed Ground Lease Basis

Financing Costs						
Construction Loan, % of Cost	$37,652	Total Cost x	65%	24,474		
Interest	$24,474	Constr Ln x	6.00%	@ 24 months	1,762	
Loan Fees - Outside, Legal, Etc.	$37,652	Constr Ln x	2.0%		753	
Subtotal Financing Costs					**$2,515**	$16,768 /rm
NET PROJECT COST					**$40,168**	$267,784 /rm
Implied Equity Requirement					**$15,694**	$104,623 /rm
Target Return on Cost	$40,168	Total Cost x	14.0%		**$5,623**	

ILLUSTRATIVE CALCULATIONS ($000)

Project Returns: Proposed Ground Lease Basis	
Stabilized NOI (includes assumed ground rent)	$3,712
Market Capitalization Rate	8.0%
Capitalized Value	$46,396
Less: Total Development Cost	($40,168)
Net Proceeds	$6,228
Net Return on Cost	15.5%
Total Equity	$15,694
Net Return on Equity	39.7%

Annual Ground Lease Payment Alternatives	Alternative				
Assumed for Proforma	2	Proposed Ground Lease Basis			**$338,683**
Possible Alternative Approaches	**Alternative**				
Current Lease Ground Rent Basis:	1				
The lesser of (positive value only):					**$560,925**
(a) Gross Receipts Basis					
Gross Receipts		$11,218,500	5.0%	**$560,925**	
(b) Gross Operating Revenue Basis					
Gross Receipts				$11,218,500	
Deduction: Tenant's Operating Expenses				($7,845,519)	
Deduction: 9% of Development Costs		$34,544,087	9.0%	($3,108,968)	
Net				**$264,013**	
Proposed Ground Lease Basis	2				
Stabilized NOI (before ground rent)				$4,050,346	
Market Capitalization Rate				8.00%	
Capitalized Value				$50,629,322	
Less: Total Vertical Development Cost				($40,167,543)	
Less: Targeted Developer Return on Cost			14.0%	($5,623,456)	
Residual Land Value				$4,838,323	
Ground Rent (Subordinated to developer return on vertical costs)			7.0%		**$338,683**
City Portion			20%		$67,737
Master Lessee Portion (Development Rights)			80%		$270,946

Source: Economic & Planning Systems, Inc.

Table 8
Retail Proforma
Queen Mary Development Feasibility and Lease Amendment; EPS #124029
Proposed Ground Lease Basis

REVENUE

Retail	TA / RSF	GSF/RSF	Rent/RSF	Rent/mo	Total	
Small Retail Shops	$35	7,695	$2.25	$17,314	207,765	
Restaurant	$75	7,695	$3.00	$23,085	277,020	
Totals	$846,450	15,390		$40,399	$484,785	$32 /sf
Stabilized Occupancy	95%				(24,239)	
Effective Gross Revenue Retail					**$460,546**	$30 /sf
Retail Operating Expenses						
Mgmt Fee, Rents Only	4.0%	/gross rent			(18,422)	
RE Taxes	$4,597,917	@	100%	1.06%	(48,738)	
Ground Lease Payment					(2,749)	
CFD Special Tax					(39,816)	
Total Operating Expenses Retail				24%	**($109,725)**	
Retail Stabilized NOI Before Debt Service					**$350,821**	$23 /sf

DEVELOPMENT COSTS ($000)

Site						
On-Site Costs (Demo,grading,pad prep)	23,452	sf @	$6.00 /sf	141		
Construction Period Ground Rent	$2,749	0%	@ 12 mos	0		
Prevailing Wage Premium	$141	site costs @	5%	7		
Sitework Contingency	$148	site costs @	10.0%	15		
Subtotal Site Cost	23,452				**$163**	$11 /sf
Hard Costs						
Vertical Improvements	15,390	sf @	$125 /sf	1,924		$125 /sf
Parking						
Structure/Podium	0	space @	$20,000	0		
Surface	0	space @	$2,000	0		
Tenant Allowance				846		$55 /sf
Prevailing Wage Premium	$2,770	x	15%	416		
Development Management	$3,186	x	3.0%	96		
Hard Cost Contingency	$3,281	x	10.0%	328		
Subtotal Hard Costs					**$3,609**	$235 /sf
Soft Costs						
A&E	$3,609	x	8.0%	289		
Other Professional Fees	15,390	sf @	$0.25	4		
Predevelopment Costs	15,390	sf @	$0.75	12		
Permits and Impact Fees	15,390	sf @	$0.75	12		
Insurance, Taxes, and Legal	3,609	x	2.5%	90		
Marketing - Retail	15,390	sf @	$5.00	77		
Leasing Commissions - Retail			5.0%	121		
Soft Cost Contingency	604	soft costs @	10.0%	60		
Subtotal Soft Costs					**$664**	$43 /sf
Total Costs Before Financing					**$4,436**	$288 /sf

Table 8
Retail Proforma
Queen Mary Development Feasibility and Lease Amendment; EPS #124029
Proposed Ground Lease Basis

Financing Costs						
Construction Loan	$4,436	Total Cost x	65%	2,884		
Interest	$2,884	Constr Ln x	6.00%	@ 12 months	104	
Loan Fees - Outside, Legal, Etc.	$2,884	Constr Ln x	2.0%		58	
Subtotal Financing Costs					**$161**	
NET PROJECT COST					**$4,598**	**$299 /sf**
Implied Equity Requirement					$1,714	
Target Return on Cost	$4,598	Total Cost x	9.0%		**$414**	

ILLUSTRATIVE CALCULATIONS ($000)

Project Returns: Proposed Ground Lease Basis	
Stabilized NOI (includes assumed ground rent)	$351
Market Capitalization Rate	7%
Capitalized Value	$5,012
Less: Total Development Cost	($4,598)
Net Proceeds	$414
Net Return on Cost	9.0%
Total Equity	$1,714
Net Return on Equity	24.1%

Annual Ground Lease Payments:	Alternative				
Assumed for Proforma	2	Proposed Ground Lease Basis			**$2,749**
Possible Alternative Approaches	**Alternative**				
Current Lease Ground Rent Basis:	1				
The lesser of (positive value only):					**$23,027**
(a) Gross Receipts Basis					
Gross Receipts		$460,546	5.0%	**$23,027**	
(b) Gross Operating Revenue Basis					
Gross Receipts				$460,546	
Deduction: Tenant's Operating Expenses (2)				($67,160)	
Deduction: 9% of Development Costs (3)		$4,597,917	9.0%	($413,812)	
Net				**($20,426)**	
Proposed Ground Lease Basis	2				
Stabilized NOI (before ground rent)				$353,570	
Market Capitalization Rate				7.00%	
Capitalized Value				$5,051,001	
Less: Total Vertical Development Cost				($4,597,917)	
Less: Targeted Developer Return on Cost			9.0%	($413,812)	
Residual Land Value				$39,272	
Ground Rent (Subordinated to developer return on vertical costs)			7.0%		**$2,749**
City Portion			20%		$550
Master Lessee Portion (Development Rights)			80%		$2,199

Source: Economic & Planning Systems

Table 9
Multifamily Proforma
Queen Mary Development Feasibility and Lease Amendment; EPS #124029
Proposed Ground Lease Basis

REVENUE						
Gross Square Feet (excluding podium)		434,090				
Bldg Efficiency		80%				
Leasable Square Feet		347,272				
Rooms	**Unit Mix**	**#Units**	**Sq.Ft./Unit**	**Rent/LSF**	**Rent/mo.**	
Studio	35%	130	750	$3.60	$2,700	
1 Bed/1 Bath	40%	148	950	$3.50	$3,325	
2 Bed/2 Bath	25%	92	1,187	$3.40	$4,036	
Subtotal		370	939	$3.50	$1,214,394	$3,282 /unit
Annual Rent Revenue					14,572,723	$39,386 /unit
Parking Revenues	740	spaces @	$0 /space		0	$0 /unit
Other Revenues	370	x	**$50**		222,000	$600 /unit
Vacancy Allowance	14,794,723	@	**95%**		(739,736)	
Effective Gross Revenues					$14,054,987	$37,986 /unit
Operating Expenses:						
Ops Expenses	14,054,987	EGR @	30%		(4,216,496)	
Capital Reserves	$225	/unit			(83,250)	
Bad Debt	14,054,987	EGR @	0.5%		(70,275)	
RE Taxes	122,908,327	@	100%	1.06%	(1,302,828)	
Ground Lease Payment					(324,714)	
CFD Special Tax					(129,440)	
Total Operating Expenses					(6,127,003)	(16,559)/unit
Stabilized NOI Before Debt Service					7,927,984	$21,427 /unit

DEVELOPMENT COSTS ($000)

Site						
On-Site Costs (Demo,grading,pad prep)	208,508	sf @	$6.00 /sf	1,251		
Construction Period Ground Rent	324,714	0.0%	@ 24 mos	0		
Prevailing Wage Premium	1,251	x	5.0%	63		
Sitework Contingency	1,314	x	10.0%	131		
Subtotal Site Cost	208,508	sf			**$1,445**	$4 /unit
Hard Costs						
Vertical Improvements	434,090	sf @	$140	60,773		$164 /unit
Parking						
Structure/Podium	740	sp @	$20,000	14,800		$40 /unit
Surface	0	sp @	$2,000	0		
Prevailing Wage Premium (1)	$75,573	x	13.0%	9,856		
Hard Cost Contingency	$113,767	x	10.0%	11,377		
Subtotal Hard Costs					**$96,805**	$262 /unit
Soft Costs						
A&E	$96,805	x	8.0%	7,744		
Predevelopment Costs	434,090	sf @	$1.00	434		
Permits and Impact Fees	434,090	sf @	$0.75	326		
Insurance, Taxes, and Legal	96,805	HC	2.5%	2,420		
Marketing	347,272	sf @	$3.50	1,215		
Leasing Commissions			5.0%	304		
Soft Cost Contingency	12,140	x	10.0%	1,214		
Development Management	$110,159	x	3.0%	3,305		
Subtotal Soft Costs					**$16,962**	$46 /unit
Total Costs Before Financing					**$115,212**	$311 /unit

Table 9
Multifamily Proforma
Queen Mary Development Feasibility and Lease Amendment; EPS #124029
Proposed Ground Lease Basis

Financing Costs							
Construction Loan, % of Cost	$115,212	Total Cost x	65%	74,888			
Interest	$74,888	Constr Ln x	6.00%	@ 24 mos	5,392		
Loan Fees - Outside, Legal, Etc.	$115,212	Constr Ln x	2.0%		2,304		
Subtotal Financing Costs						**$7,696**	$21 /unit
NET PROJECT COST						**$122,908**	$332 /unit
Implied Equity Requirement						**$48,020**	$130 /unit
Target Return on Cost		$122,908	Total Cost x	13.0%		**$15,978**	$43 /unit

ILLUSTRATIVE CALCULATIONS ($000)

Project Returns: Proposed Ground Lease Basis	
Stabilized NOI (includes assumed ground rent)	$7,928
Market Capitalization Rate	5.8%
Capitalized Value	$137,878
Less: Total Development Cost	($122,908)
Net Proceeds	$14,970
Net Return on Cost	12.2%
Total Equity	$48,020
Net Return on Equity	31.2%

Annual Ground Lease Payments:	Alternative				
Assumed for Proforma	2	Proposed Ground Lease Basis			**$324,714**
Possible Alternative Approaches	**Alternative**				
Current Lease Ground Rent Basis:	1				
The lesser of (positive value only):					**$702,749**
(a) Gross Receipts Basis					
Gross Receipts		$14,054,987	5.0%	**$702,749**	
(b) Gross Operating Revenue Basis					
Gross Receipts				$14,572,723	
Deduction: Tenant's Operating Expenses (2)				($5,672,849)	
Deduction: 9% of Development Costs (3)		$122,908,327	9.0%	($11,061,749)	
Net				**($2,161,876)**	
Proposed Ground Lease Basis	2				
Stabilized NOI (before ground rent)				$8,252,698	
Market Capitalization Rate				5.75%	
Capitalized Value				$143,525,184	
Less: Total Vertical Development Cost				($122,908,327)	
Less: Targeted Developer Return on Cost			13.0%	($15,978,083)	
Residual Land Value				$4,638,774	
Ground Rent (Subordinated to developer return on vertical costs)		$4,638,774	7.0%		**$324,714**
City Portion			20%		$64,943
Master Lessee Portion (Development Rights)			80%		$259,771

(1) Prevailing wage premium a weighted average based on different construction method
Source: Economic & Planning Systems, Inc.

Table 10
Queen Mary 2013 Budget
Queen Mary Development Feasibility and Lease Amendment; EPS #12402
(106 total event days)

2013 Operating Budget (Based on 4/4/13 Update from Evolution)				Event Day Sensitivity Assumptions	
Rooms	343				
Incremental Event Days (above 106 Baseline)	0			Additional event days beyond the 106 baseline	
Occupancy %	65.30%				
Average Daily Rate	$129.30				
RevPAR	$84.44				
Group Rooms	*22,291*	*27.2%*	*44.3%*		
Transient Rooms	*59,528*	*72.8%*	*6.9%*	24	rooms per incremental event day
Base Rooms	-	*0.0%*	*0.0%*		
Total RmNts Sold	81,819	100.0%	*15.0%*		
Total RmNts Available	125,298				
Total Departmental Revenue	Amount	%	POR		
Rooms	$10,579,564	20.6%	$129.30		
Food & Beverage	16,539,833	32.2%	$202.15		
Telecom	25,851	0.1%	$0.32		
Attractions	4,949,277	9.6%	$60.49		
Diana/Replacement Exhibit	2,299,045	4.5%	$28.10		
Dark Harbor	2,569,880	5.0%	$31.41		
Chill	4,910,191	9.6%	$60.01		
Special events (ship events)	2,097,094	4.1%	$25.63	$109,857	per incremental event day
Parking	4,089,141	8.0%	$49.98	$11,525	per incremental event day
Tenant Rental	1,708,653	3.3%	$20.88		
Retail	593,124	1.2%	$7.25		
Other (Including Convenience Fees)	1,002,047	2.0%	$12.25	$5,848	per incremental event day
Total Departmental Revenue	**$51,363,700**	**100.0%**	**$627.77**		
Total Departmental Expenses					
Rooms	$4,154,627	39.3%	$50.78		
Food & Beverage	12,049,240	72.8%	$147.27		
Telecom	320,754	1240.8%	$3.92		
Attractions	1,692,142	34.2%	$20.68		
Diana	576,873	25.1%	$7.05		
Dark Harbor	2,359,159	91.8%	$28.83		
Chill	5,063,321	103.1%	$61.88		
Special Events (ship events)	1,712,388	81.7%	$20.93	$92,116	per incremental event day
Parking	516,946	12.6%	$6.32	$6,216	per incremental event day
Retail	487,297	28.5%	$5.96		
Other (Including Convenience Fees)	37,257	3.72%	$0.46	3.72%	of revenue
Total Departmental Expenses	**$28,970,004**	**56.4%**	**$354.07**		
Departmental Profit					
Rooms	$6,424,937	60.7%	$78.53		
Food & Beverage	$4,490,593	27.2%	$54.88		
Telecom	($294,903)	-1140.8%	($3.60)		
Attractions	$3,257,135	65.8%	$39.81		
Diana	$1,722,172	74.9%	$21.05		
Dark Harbor	$210,721	8.2%	$2.58		
Chill	($153,130)	-3.1%	($1.87)		
Special Events (ship events)	$384,706	18.3%	$4.70		
Parking	$3,572,195	87.4%	$43.66		
Tenant	1,708,653	100.0%	$20.88		
Retail	105,827	17.8%	$1.29		
Other (Including Convenience Fees)	964,790	96.3%	11.79		
Total Departmental Profit	**$22,393,696**	**43.6%**	**$273.70**		
Other Operating Expenses					
Administrative & General	$4,304,556	8.4%	$52.61		
Sales & Marketing	2,816,486	5.5%	34.42		
Repairs & Maintenance	3,615,768	7.0%	44.19		
Utilities	$1,818,528	3.5%	22.23		
Total Other Operating Expenses	**$12,555,338**	**24.4%**	**$153.45**		
GROSS OPERATING PROFIT	**$9,838,358**	**19.2%**	**$120.25**		
Fixed Expense					
Property Taxes	$425,786	0.8%	$5.20		
Insurance	643,637	1.4%	7.87		
Ground Lease	1,411,068	2.7%	17.25		
Property Improvement	1,797,729	2.5%	21.97		
Other	18,175	2.5%			
Management Fee	1,026,694	2.0%	12.55		
Total Fixed Expense	**$5,323,089**	**10.4%**	**$65.06**		
NOI	**$4,515,269**	**8.8%**	**$55.19**		
Trigen	$605,198	1.2%	7.40		
Legal/Professional	65,150	0.1%	0.80		
NET OPERATING INCOME	**$3,844,921**	**7.5%**	**$46.99**		
Incentive Fee	(558,439)				
NOI After Incentive	**$3,286,482**	**6.4%**			

Memo: Computation of Management Incentive Fee

GOP		**$9,838,358**
Base Mgmt Fee		(1,026,694)
Submarine Lease		(200,000)
Non Physical Property Insurance		(326,726)
Adjustments		(1,553,420)
Adjusted GOP		**$8,284,938**
Incentive Fee Hurdle 2013		5,000,000
		$3,284,938
Incentive Fee	17.0%	558,439
NOI After Incentive		$3,286,482

Source: Evolution Hospitality and Economic & Planning Systems

Table 11
Queen Mary 2013 Budget Ground Rent Calculation
Queen Mary Development Feasibility and Lease Amendment; EPS #124029

		Budget	Rent Basis QM	Dome	Waterfront
Current Lease Basis					
REVENUE BASIS					
Rooms		$10,579,564	$10,579,564		
Food & Beverage		$16,539,833	$16,539,833		
Telecom		$25,851	$25,851		
Attractions		$4,949,277	$4,949,277		
Diana/Replacement Exhibit		$2,299,045	$2,299,045		
Dark Harbor		$2,569,880			2,569,880
Chill		$4,910,191			4,910,191
Special events (ship events)		$2,097,094	$1,572,821		524,274
Parking		$4,089,141	$4,089,141		
Tenant Rental		$1,708,653	$294,653	$1,320,000	$94,000
Retail		$593,124	$328,000		265,124
Other (Including Convenience Fees)		$1,002,047	$501,024		501,024
Total Basis		**$51,363,700**	**$41,179,208**	**$1,320,000**	**$8,864,492**
RENT CALCULATION					
QM (Non-Waterfront) Rent	**Threshold**	**Rate**	**Basis**	**Rent**	
4% level ($0 to $17.5mm)	17,500,000	4.0%	17,500,000	700,000	
5% level ($17.5 to $23mm)	23,000,000	5.0%	5,500,000	275,000	
6% level (greater than $23mm)	>23,000,000	6.0%	18,179,208	1,090,752	
Total		**5.0%**	**$41,179,208**	**$2,065,752**	
Dome (Non-Waterfront) Rent		**2.5%**	**$1,320,000**	**$33,000**	
Waterfront Rent		**5.0%**	**$8,864,492**	**$443,225**	
TOTAL GROUND RENT		**4.95%**	**$51,363,700**	**$2,541,977**	
Proposed Alternative Basis					
BASE RENT TO CITY				**$300,000**	
PERCENTAGE RENT					
Departmental Revenue			**$51,363,700**		
Expenses (Excluding Ground Rent and Property Improvements)					
(less) Department Costs			($28,970,004)		
(less) Other Operating Expenses			($12,555,338)		
(less) Property Taxes			($425,786)		
(less) Insurance			($643,637)		
(less) Other			($18,175)		
(less) Management Fee			($1,026,694)		
(less) Trigen			($605,198)		
(less) Legal/Professional			($65,150)		
(less) Incentive Fee			($558,439)		
Total Expenses			**($44,868,421)**		
Adjusted NOI and operating margin		14.5%	**$6,495,279**		
Threshold operating margin		12.0%	**$5,384,211**		
Surplus Available for Ground Rent				**$1,111,068**	
Split to the City		20%		$222,214	
Split to the Master Lessee		80%		$888,854	
TOTAL GROUND RENT		2.7%		**1,411,068**	
Split to the City				522,214	
Split to the Master Lessee				888,854	

Operating Margins

	Current Basis	Proposed Basis
Revenue	51,363,700	51,363,700
Expenses		
Operating and Fixed	(44,868,421)	(44,868,421)
Property Improvement	(1,797,729)	(1,797,729)
Ground Rent	($2,541,977)	(522,214)
	(49,208,127)	(47,188,364)
NOI	**2,155,573**	**4,175,336**
Operating Margin	4.2%	8.1%

Source: Evolution Hospitality and Economic & Planning Systems

Table 12
Queen Mary Scenario 1
Queen Mary Development Feasibility and Lease Amendment; EPS #124029
(106 total event days)

2013 Operating Budget: Scenario 1

Rooms	343		
Event Days	106		
Occupancy %	65.30%		
Average Daily Rate	$128.92		
RevPAR	$84.19		
Group Rooms	*22,291*	*27.2%*	*44.3%*
Transient Rooms	*59,528*	*72.8%*	*6.9%*
Base Rooms	-	*0.0%*	*0.0%*
Total RmNts Sold	81,819	100.0%	*15.0%*
Total RmNts Available	125,298		
Total Departmental Revenue	Amount	%	POR
Rooms	10,548,350	21.1%	$128.92
Food & Beverage	16,491,034	33.0%	$201.56
Telecom	25,775	0.1%	$0.32
Attractions	4,949,277	9.9%	$60.49
Diana/Replacement Exhibit	2,299,045	4.6%	$28.10
Dark Harbor	2,569,880	5.1%	$31.41
Chill	4,910,191	9.8%	$60.01
Special events (ship events)	992,129	2.0%	$12.13
Parking	3,973,215	7.9%	$48.56
Tenant	1,708,653	3.4%	$20.88
Retail	593,124	1.2%	$7.25
Other (Including Convenience Fees)	943,228	1.9%	11.53
Total Departmental Revenue	**$50,003,902**	**100.0%**	**$611.15**
Total Departmental Expenses			
Rooms	4,142,369	39.3%	$50.63
Food & Beverage	12,013,690	72.8%	$146.83
Telecom	319,808	1240.8%	$3.91
Attractions	1,692,142	34.2%	$20.68
Diana	576,873	25.1%	$7.05
Dark Harbor	2,359,159	91.8%	$28.83
Chill	5,063,321	103.1%	$61.88
Special Events (ship events)	785,867	79.2%	$9.60
Parking	558,142	14.0%	$6.82
Retail	487,297	28.5%	$5.96
Other (Including Convenience Fees)	35,070	3.7%	0.43
Total Departmental Expenses	**$28,033,739**	**56.1%**	**$342.63**
Departmental Profit			
Rooms	$6,405,981	60.7%	$78.29
Food & Beverage	$4,477,344	27.2%	$54.72
Telecom	($294,033)	-1140.8%	($3.59)
Attractions	$3,257,135	65.8%	$39.81
Diana	$1,722,172	74.9%	$21.05
Dark Harbor	$210,721	8.2%	$2.58
Chill	($153,130)	-3.1%	($1.87)
Special Events (ship events)	$206,262	20.8%	$2.52
Parking	$3,415,073	86.0%	$41.74
Tenant	1,708,653	100.0%	$20.88
Retail	105,827	17.8%	$1.29
Other (Including Convenience Fees)	908,158	96.3%	11.10
Total Departmental Profit	**$21,970,163**	**43.9%**	**$268.52**
Other Operating Expenses			
Administrative & General	$4,304,556	8.6%	$52.61
Sales & Marketing	2,816,486	5.6%	34.42
Repairs & Maintenance	3,615,768	7.2%	44.19
Utilities	$1,818,528	3.6%	22.23
Total Other Operating Expenses	**$12,555,338**	**25.1%**	**$153.45**
GROSS OPERATING PROFIT	**$9,414,825**	**18.8%**	**$115.07**
Fixed Expense			
Property Taxes	$425,786	0.9%	$5.20
Insurance	643,637	1.4%	7.87
Ground Lease	1,205,795	2.4%	14.74
Property Improvement	1,797,729	2.5%	21.97
Other	18,175		
Management Fee	999,513	2.0%	12.22
Total Fixed Expense	**$5,090,635**	**10.2%**	**$62.22**
NOI	**$4,324,190**	**8.6%**	**$52.85**
Trigen	$605,198	1.2%	7.40
Legal/Professional	65,150	0.1%	0.80
NET OPERATING INCOME	**$3,653,842**	**7.3%**	**$44.66**
Incentive Fee	(491,059)		
NOI After Incentive	**$3,162,782**	**6.3%**	

Memo: Computation of Management Incentive Fee

GOP		**$9,414,825**
Base Mgmt Fee		(999,513)
Submarine Lease		(200,000)
Non Physical Property Insurance		(326,726)
Adjustments		(1,526,240)
Adjusted GOP		**$7,888,585**
Incentive Fee Hurdle 2013		5,000,000
		$2,888,585
Incentive Fee	17.0%	491,059
NOI After Incentive		$3,162,782

Source: Evolution Hospitality and Economic & Planning Systems

Table 13
Queen Mary Scenario 1 Ground Rent Calculation
Queen Mary Development Feasibility and Lease Amendment; EPS #124029

			Rent Basis		
		Budget	QM	Dome	Waterfront
Current Lease Basis					
REVENUE BASIS					
Rooms		$10,548,350	$10,548,350		
Food & Beverage		$16,491,034	$16,491,034		
Telecom		$25,775	$25,775		
Attractions		$4,949,277	$4,949,277		
Diana/Replacement Exhibit		$2,299,045	$2,299,045		
Dark Harbor		$2,569,880			$2,569,880
Chill		$4,910,191			$4,910,191
Special events (ship events)		$992,129	$744,097		$248,032
Parking		$3,973,215	$3,973,215		
Tenant		$1,708,653	$294,653	$1,320,000	$94,000
Retail		$593,124	$328,000		$265,124
Other (Including Convenience Fees)		$943,228	$471,614		$471,614
Total Basis		**$50,003,902**	**$40,125,061**	**$1,320,000**	**$8,558,841**
RENT CALCULATION					
QM (Non-Waterfront) Rent	**Threshold**	**Rate**	**Basis**	**Rent**	
4% level ($0 to $17.5mm)	17,500,000	4.0%	17,500,000	700,000	
5% level ($17.5 to $23mm)	23,000,000	5.0%	5,500,000	275,000	
6% level (greater than $23mm)	>23,000,000	6.0%	17,125,061	1,027,504	
Total		**4.99%**	**$40,125,061**	**$2,002,504**	
Dome (Non-Waterfront) Rent		**2.5%**	**$1,320,000**	**$33,000**	
Waterfront Rent		**5.0%**	**$8,558,841**	**$427,942**	
TOTAL GROUND RENT		**4.93%**	**$50,003,902**	**$2,463,446**	

Proposed Alternative Basis			
BASE RENT TO CITY			**$300,000**
PERCENTAGE RENT			
Departmental Revenue		**$50,003,902**	
Expenses (Excluding Ground Rent and Property Improvements)			
(less) Department Costs		($28,033,739)	
(less) Other Operating Expenses		($12,555,338)	
(less) Property Taxes		($425,786)	
(less) Insurance		($643,637)	
(less) Other		($18,175)	
(less) Management Fee		(999,513)	
(less) Trigen		($605,198)	
(less) Legal/Professional		($65,150)	
(less) Incentive Fee		($491,059)	
Total Expenses		**($43,837,596)**	
Adjusted NOI	14.1%	**$6,166,306**	
Threshold Cash on Costs	12.0%	**$5,260,511**	
Surplus Available for Ground Rent			**$905,795**
Split to the City	20%		$181,159
Split to the Master Lessee	80%		$724,636
TOTAL GROUND RENT			**1,205,795**
Split to the City			481,159
Split to the Master Lessee			724,636

Operating Margins

	Current Basis	**Proposed Basis**
Revenue	50,003,902	50,003,902
Expenses		
Operating and Fixed	(43,837,596)	(43,837,596)
Property Improvement	(1,797,729)	(1,797,729)
Ground Rent	($2,463,446)	(481,159)
	(48,098,770)	(46,116,484)
NOI	**1,905,131**	**3,887,418**
Operating Margin	3.8%	7.8%

Source: Evolution Hospitality and Economic & Planning Systems

Table 14
Queen Mary Scenario 2
Queen Mary Development Feasibility and Lease Amendment; EPS #124029
(106 total event days)

2013 Operating Budget: Scenario 2

Rooms	343		
Event Days	106		
Occupancy %	65.30%		
Average Daily Rate	$128.26		
RevPAR	$83.75		
Group Rooms	*22,291*	*27.2%*	*44.3%*
Transient Rooms	*59,528*	*72.8%*	*6.9%*
Base Rooms	-	*0.0%*	*0.0%*
Total RmNts Sold	81,819	100.0%	*15.0%*
Total RmNts Available	125,298		
Total Departmental Revenue	Amount	%	POR
Rooms	10,494,014	22.0%	$128.26
Food & Beverage	16,406,086	34.4%	$200.52
Telecom	25,642	0.1%	$0.31
Attractions	4,949,277	10.4%	$60.49
Diana/Replacement Exhibit	2,299,045	4.8%	$28.10
Dark Harbor	2,569,880	5.4%	$31.41
Chill	4,910,191	10.3%	$60.01
Special events (ship events)	(931,376)	-2.0%	($11.38)
Parking	3,771,414	7.9%	$46.09
Tenant	1,708,653	3.6%	$20.88
Retail	593,124	1.2%	$7.25
Other (Including Convenience Fees)	840,837	1.8%	10.28
Total Departmental Revenue	**$47,636,787**	**100.0%**	**$582.22**
Total Departmental Expenses			
Rooms	4,121,031	39.3%	$50.37
Food & Beverage	11,951,806	72.8%	$146.08
Telecom	318,160	1240.8%	$3.89
Attractions	1,692,142	34.2%	$20.68
Diana	576,873	25.1%	$7.05
Dark Harbor	2,359,159	91.8%	$28.83
Chill	5,063,321	103.1%	$61.88
Special Events (ship events)	(827,005)	88.8%	($10.11)
Parking	599,624	15.9%	$7.33
Retail	487,297	28.5%	$5.96
Other (Including Convenience Fees)	31,263	3.7%	0.38
Total Departmental Expenses	**$26,373,671**	**55.4%**	**$322.34**
Departmental Profit			
Rooms	$6,372,983	60.7%	$77.89
Food & Beverage	$4,454,281	27.2%	$54.44
Telecom	($292,518)	-1140.8%	($3.58)
Attractions	$3,257,135	65.8%	$39.81
Diana	$1,722,172	74.9%	$21.05
Dark Harbor	$210,721	8.2%	$2.58
Chill	($153,130)	-3.1%	($1.87)
Special Events (ship events)	($104,371)	11.2%	($1.28)
Parking	$3,171,790	84.1%	$38.77
Tenant	1,708,653	100.0%	$20.88
Retail	105,827	17.8%	$1.29
Other (Including Convenience Fees)	809,574	96.3%	9.89
Total Departmental Profit	**$21,263,116**	**44.6%**	**$259.88**
Other Operating Expenses			
Administrative & General	$4,304,556	9.0%	$52.61
Sales & Marketing	2,816,486	5.9%	34.42
Repairs & Maintenance	3,615,768	7.6%	44.19
Utilities	$1,818,528	3.8%	22.23
Total Other Operating Expenses	**$12,555,338**	**26.4%**	**$153.45**
GROSS OPERATING PROFIT	**$8,707,778**	**18.3%**	**$106.43**
Fixed Expense			
Property Taxes	$425,786	0.9%	$5.20
Insurance	643,637	1.4%	7.87
Ground Lease	876,562	1.8%	10.71
Property Improvement	1,797,729	2.5%	21.97
Other	18,175		
Management Fee	952,198	2.0%	11.64
Total Fixed Expense	**$4,714,087**	**9.9%**	**$57.62**
NOI	**$3,993,691**	**8.4%**	**$48.81**
Trigen	$605,198	1.3%	7.40
Legal/Professional	65,150	0.1%	0.80
NET OPERATING INCOME	**$3,323,343**	**7.0%**	**$40.62**
Incentive Fee	(378,905)		
NOI After Incentive	**$2,944,438**	**6.2%**	

Memo: Computation of Management Incentive Fee

GOP		**$8,707,778**
Base Mgmt Fee		(952,198)
Submarine Lease		(200,000)
Non Physical Property Insurance		(326,726)
Adjustments		(1,478,924)
Adjusted GOP		**$7,228,854**
Incentive Fee Hurdle 2013		5,000,000
		$2,228,854
Incentive Fee	17.0%	378,905
NOI After Incentive		$2,944,438

Source: Evolution Hospitality and Economic & Planning Systems

Table 15
Queen Mary Scenario 2 Ground Rent Calculation
Queen Mary Development Feasibility and Lease Amendment; EPS #124029

	Budget	Rent Basis QM	Dome	Waterfront
Current Lease Basis				
REVENUE BASIS				
Rooms	$10,494,014	$10,494,014		
Food & Beverage	$16,406,086	$16,406,086		
Telecom	$25,642	$25,642		
Attractions	$4,949,277	$4,949,277		
Diana/Replacement Exhibit	$2,299,045	$2,299,045		
Dark Harbor	$2,569,880			$2,569,880
Chill	$4,910,191			$4,910,191
Special events (ship events)	($931,376)	($698,532)		($232,844)
Parking	$3,771,414	$3,771,414		
Tenant	$1,708,653	$294,653	$1,320,000	$94,000
Retail	$593,124	$328,000		$265,124
Other (Including Convenience Fees)	$840,837	$420,418		$420,418
Total Basis	**$47,636,787**	**$38,290,018**	**$1,320,000**	**$8,026,769**

RENT CALCULATION

QM (Non-Waterfront) Rent	Threshold	Rate	Basis	Rent
4% level ($0 to $17.5mm)	17,500,000	4.0%	17,500,000	700,000
5% level ($17.5 to $23mm)	23,000,000	5.0%	5,500,000	275,000
6% level (greater than $23mm)	>23,000,000	6.0%	15,290,018	917,401
Total		**4.94%**	**$38,290,018**	**$1,892,401**
Dome (Non-Waterfront) Rent		**2.5%**	**$1,320,000**	**$33,000**
Waterfront Rent		**5.0%**	**$8,026,769**	**$401,338**
TOTAL GROUND RENT		**4.88%**	**$47,636,787**	**$2,326,740**

Proposed Alternative Basis			
BASE RENT TO CITY			**$300,000**
PERCENTAGE RENT			
Departmental Revenue		**$47,636,787**	
Expenses (Excluding Ground Rent and Property Improvements)			
(less) Department Costs		($26,373,671)	
(less) Other Operating Expenses		($12,555,338)	
(less) Property Taxes		($425,786)	
(less) Insurance		($643,637)	
(less) Other		($18,175)	
(less) Management Fee		($952,198)	
(less) Trigen		($605,198)	
(less) Legal/Professional		($65,150)	
(less) Incentive Fee		($378,905)	
Total Expenses		**($42,018,058)**	
Adjusted NOI	13.4%	**$5,618,729**	
Threshold Cash on Costs	12.0%	**$5,042,167**	
Surplus Available for Ground Rent			**$576,562**
Split to the City	20%		$115,312
Split to the Master Lessee	80%		$461,250
TOTAL GROUND RENT			**876,562**
Split to the City			415,312
Split to the Master Lessee			461,250

Operating Margins

	Current Basis	Proposed Basis
Revenue	47,636,787	47,636,787
Expenses		
Operating and Fixed	(42,018,058)	(42,018,058)
Property Improvement	(1,797,729)	(1,797,729)
Ground Rent	($2,326,740)	(415,312)
	(46,142,526)	(44,231,099)
NOI	**1,494,261**	**3,405,688**
Operating Margin	3.1%	7.1%

Source: Evolution Hospitality and Economic & Planning Systems

Table 16
Public Infrastructure
Queen Mary Development Feasibility and Lease Amendment; EPS #124029

		By Scenario		By Use										
				Private		Public								
	Rate	**Partial Build-Out (Scenario 1)**	**Full Build-Out (Scenario 2)**	Private Vertical Dvlp. (Sc. 1)	Private Vertical Dvlp. (Sc. 2)	Parking Structure (Sc.2)	Surface Parking (Sc.1)	Surface Parking (Sc.2)	Events Area (Parkable)	Park and Pavilion (Sc 1.)	Circulation (Sc. 1)	Circulation (Sc. 2)	Plaza (Sc.1)	Plaza (Sc. 2)
Associated Land Area (ac)				**4.8**	**9.6**	**0.00**	**10.91**	**3.20**	**2.51**	**0.49**	**2.10**	**4.95**	**1.53**	**1.60**
Site Preparation														
Demo,Grading cost Sq.Ft.	$2.25 /sf	**$1,719,509**	**$1,250,366**			$0	$1,069,776	$314,078	$245,702	$48,422	$205,810	$485,395	$149,798	$156,769
Stabilization	$0.50 /sf	**$104,178**	**$312,609**	$104,178	$208,432	$0								
Utilities	$1.25 /sf	**$260,444**	**$781,523**	$260,444	$521,079									
Sewer and Water	$0.50 /sf	**$104,178**	**$312,609**	$104,178	$208,432									
		$2,188,307	**$2,657,106**	**$468,799**	**$937,942**	**$0**	**$1,069,776**	**$314,078**	**$245,702**	**$48,422**	**$205,810**	**$485,395**	**$149,798**	**$156,769**
Improvements														
Hardscape for Events Area	$2.25 /sf	**$245,702**	**$245,702**						$245,702					
Park	$40.00 /sf	**$860,840**	**$860,840**							$860,840				
Hardscape for Circulation and Plaza	$4.00 /sf	**$632,192**	**$1,141,624**								$365,884	$862,924	$266,308	$278,700
		$1,738,734	**$2,248,166**	**$0**	**$0**	**$0**	**$0**	**$0**	**$245,702**	**$860,840**	**$365,884**	**$862,924**	**$266,308**	**$278,700**
Parking														
Surface Parking	2,000 /stall	**$1,060,000**	**$1,322,000**				$478,000	$740,000	$582,000				$0	
Structured Parking	25,000 /stall	**$0**	**$0**			$0								
		$1,060,000	**$1,322,000**	**$0**	**$0**	**$0**	**$478,000**	**$740,000**	**$582,000**	**$0**	**$0**	**$0**	**$0**	**$0**
TOTAL PUBLIC INFRASTRUCTURE COSTS		**$4,987,042**	**$6,227,272**	**$468,799**	**$937,942**	**$0**	**$1,547,776**	**$1,054,078**	**$1,073,405**	**$909,262**	**$571,694**	**$1,348,319**	**$416,106**	**$435,469**
Additional Overhead Costs														
Prevailing Wage Premium	5%	**$249,352**	**$311,364**	$23,440	$46,897	$0	$77,389	$52,704	$53,670	$45,463	$28,585	$67,416	$20,805	$21,773
Development Management	3.0%	**$149,611**	**$186,818**	$14,064	$28,138	$0	$46,433	$31,622	$32,202	$27,278	$17,151	$40,450	$12,483	$13,064
Contingency	10.0%	**$498,704**	**$622,727**	$46,880	$93,794	$0	$154,778	$105,408	$107,340	$90,926	$57,169	$134,832	$41,611	$43,547
NET PUBLIC INFRASTRUCTURE COSTS		**$5,884,709**	**$7,348,181**	**$553,183**	**$1,106,771**	**$0**	**$1,826,376**	**$1,243,811**	**$1,266,617**	**$1,072,929**	**$674,599**	**$1,591,016**	**$491,005**	**$513,853**

Source: Economic & Planning Systems

Table 17
Mello-Roos Calculation
Queen Mary Development Feasibility and Lease Amendment; EPS #124029

	Marina	Hotel	Retail	**Total Scenario 1**	Residential	**Total Scenario 1+2**
Allocated Infrastructure Costs/Bond Requirement [1]	$1,501,865	$3,932,677	$450,167	**$5,884,709**	$1,463,472	**$7,348,181**
Interest Payment on Bond[2]	$132,835	$347,833	$39,816	**$520,485**	$129,440	**$649,924**

(1) For the purposes of this level of analysis, the bond is made equivalent to allocated infrastructure costs. This is not intended to illustrate an actual bond deal but rather to be consistent with the other elements of the development proforma. Because an actual bond deal is likely to be based on an assessed value and may not generate the full funding necessary to pay for infrastructure, this approach to assuming CFD costs to the vertical developers is conservative

(2) Bond payments are computed on the basis of a 30-year bond, 6.5% rate, 10% DSR, and 5% issuance costs and allocated to vertical uses in proportion to construction costs

Source: Economic & Planning Systems

Table 18
Assumptions
Queen Mary Development Feasibility and Lease Amendment; EPS #124029

	All Uses	Marina	Hotel	Retail	MF	Public Infrastructure
Base Year for Cost and Revenue Inputs	**2012**	(not dynamic)				
Base Year for Outputs	**2013**	(not dynamic)				
Construction Costs						
Sitework Contingency	10.0%					
Hard Cost Contingency		10.0%	10.0%	10.0%	10.0%	10.0%
Soft Cost Contingency	10.0%					
Ins, Taxes, Legal, % Costs	2.5%					
Development Management	3.0%					
Prevailing Wage						
Toggle: 1=yes, 0=No	1					
Prevailing Wage Cost Premium: Stick Construction	15%					
Prevailing Wage Cost Premium: Steel, Concrete, Sitework	5%					
Financing Costs						
Construction Loan to Cost: Convertible Mortgage		65%	65%	65%	65%	65%
Construction Loan Int Rate	6.00%					
Construction Loan Avg Balance	60%					
Construction Loan Costs, Fees	2.0%					
Cap Rates						
Toggle (1=Current, 2=Est. Future Decompressed)	2	Marina	Hotel	Retail	MF	QM
Estimated Future Decompressed Cap Rates		8.00%	8.00%	7.00%	5.75%	8.50%
Stabilized Class A: CBRE 8/2012 Los Angeles Area		7.25%	7.25%	6.00%	5.00%	7.50%
Estimated Future Decompressed Cap Rates		8.00%	8.00%	7.00%	5.75%	8.50%
Expected Return on Cost at Stabilization						
Returns Toggle (1=Opt., 2=Mid., 3=Cons.)	2					
Target Return on Cost		13.5%	14.0%	9.0%	13.0%	
Optimistic		*14.0%*	*15.0%*	*9.5%*	*14.0%*	
Middle		*13.5%*	*14.0%*	*9.0%*	*13.0%*	
Conservative		*13.0%*	*13.0%*	*8.5%*	*12.0%*	
Rent Premium over Current Market Rates	0%					
Mello-Roos						
Allocate to New Development (1 = yes)	1					
Fiscal Benefits						
RE Tax Rate, % of A/V	1.06%					
A/V, % of Total Cost	100%					
Sales Tax Rate	1.0%					
Long Beach Transient Occupancy Tax Rate	12%					
Ground Lease Assumptions:						
New Development						
Proposed Ground Lease Basis						
Rate		7.0%	7.0%	7.0%	7.0%	
Split to City		20%	20%	20%	20%	
Construction Period Rent, % of Underwriting		0%	0%	0%	0%	
Queen Mary						
Base Rent to City	$300,000					
Threshold Rate of Return on Operating Costs	12.0%					
Split to City	20%					

Source: Economic & Planning Systems

Appendix 1
Queen Mary Baseline Event P&L (2013 Budget)
Queen Mary Development Feasibility and Lease Amendment; EPS #124029

	Per Ticket 2013 (1)			Per Event Day 2013 (1)			Annual Total 2013(1)			Profit
	Revenue	Expense	Profit	Revenue	Expense	Profit	Revenue	Expense	Profit	Share
Tickets/day	3,540									
Parking/day	1,416									
Add'l Rooms/day	24									
Total Event Days	106									
Direct										
Event	$31.04	$26.02	$5.01	$109,857	$92,116	$17,741	$11,644,861	$9,764,296	$1,880,564	56%
Event-Driven Parking	$3.26	$1.76	$1.50	$11,525	$6,216	$5,309	$1,221,701	$658,921	$562,779	17%
Convenience Fees	$1.65	$0.06	$1.59	$5,848	$217	$5,630	$619,874	$23,047	$596,826	18%
	$35.94	**$27.84**	**$8.10**	**$127,231**	**$98,550**	**$28,681**	**$13,486,435**	**$10,446,265**	**$3,040,170**	90%
Ancillary										
Event-Driven Rooms	$0.88	$0.34	$0.53	$3,103	$1,219	$1,885	$328,951	$129,180	$199,771	6%
Event-Driven F&B	$1.37	$1.00	$0.37	$4,852	$3,534	$1,317	$514,273	$374,647	$139,626	4%
Event-Driven Telecom	$0.00	$0.03	($0.02)	$8	$94	($87)	$804	$9,973	($9,169)	0%
Subtotal	**$2.25**	**$1.37**	**$0.88**	**$7,963**	**$4,847**	**$3,115**	**$844,028**	**$513,800**	**$330,227**	10%
TOTAL	**$38.19**	**$29.21**	**$8.98**	**$135,193**	**$103,397**	**$31,796**	**$14,330,463**	**$10,960,066**	**$3,370,397**	100%

(1) Based on 2013 Budget
Source: Economic & Planning Systems

Appendix 2
Queen Mary Event P&L (Scenario 1)
Queen Mary Development Feasibility and Lease Amendment; EPS #124029

	Per Ticket			Per Event Day			Total Estimated			Profit
	Revenue	Expense	Profit	Revenue	Expense	Profit	Revenue	Expense	Profit	Share
Tickets/day	3,204									
Parking/day	1,282									
Add'l Rooms/day	24									
Total Event Days	106									
Direct										
Event	$31.04	$26.02	$5.01	$99,433	$83,375	$16,058	$10,539,896	$8,837,776	$1,702,120	58%
Event-Driven Parking	$3.26	$2.06	$1.19	$10,432	$6,605	$3,827	$1,105,775	$700,118	$405,658	14%
Convenience Fees	$1.65	$0.06	$1.59	$5,293	$197	$5,096	$561,055	$20,861	$540,194	18%
	$35.94	**$27.84**	**$7.80**	**$115,158**	**$90,177**	**$24,981**	**$12,206,726**	**$9,558,754**	**$2,647,972**	90%
Ancillary										
Event-Driven Rooms	$0.88	$0.34	$0.53	$2,809	$1,103	$1,706	$297,737	$116,922	$180,815	6%
Event-Driven F&B	$1.37	$1.00	$0.37	$4,391	$3,199	$1,192	$465,475	$339,098	$126,377	4%
Event-Driven Telecom	$0.00	$0.03	($0.02)	$7	$85	($78)	$728	$9,027	($8,299)	0%
Subtotal	**$2.25**	**$1.37**	**$0.88**	**$7,207**	**$4,387**	**$2,820**	**$763,939**	**$465,047**	**$298,893**	10%
TOTAL	**$38.19**	**$29.21**	**$8.68**	**$122,365**	**$94,564**	**$27,801**	**$12,970,665**	**$10,023,800**	**$2,946,864**	100%

(1) Based on 2013 Budget
Source: Economic & Planning Systems

Appendix 3
Queen Mary Event P&L (Scenario 2)
Queen Mary Development Feasibility and Lease Amendment; EPS #124029

	Per Ticket			**Per Event Day**			**Total Estimated**			**Profit**
	Revenue	Expense	Profit	Revenue	Expense	Profit	Revenue	Expense	Profit	**Share**
Tickets/day	2,619									
Parking/day	1,048									
Add'l Rooms/day	24									
Total Event Days	106									
Direct										
Event	$31.04	$26.02	$5.01	$81,287	$68,159	$13,127	$8,616,390	$7,224,903	$1,391,487	62%
Event-Driven Parking	$3.26	$2.67	$0.58	$8,528	$6,996	$1,532	$903,974	$741,599	$162,375	7%
Convenience Fees	$1.65	$0.06	$1.59	$4,327	$161	$4,166	$458,664	$17,054	$441,610	20%
	$35.94	**$27.84**	**$7.19**	**$94,142**	**$75,317**	**$18,825**	**$9,979,028**	**$7,983,556**	**$1,995,472**	89%
Ancillary										
Event-Driven Rooms	$0.88	$0.34	$0.53	$2,296	$902	$1,394	$243,401	$95,584	$147,816	7%
Event-Driven F&B	$1.37	$1.00	$0.37	$3,590	$2,615	$975	$380,527	$277,213	$103,314	5%
Event-Driven Telecom	$0.00	$0.03	($0.02)	$6	$70	($64)	$595	$7,379	($6,785)	0%
Subtotal	**$2.25**	**$1.37**	**$0.88**	**$5,892**	**$3,587**	**$2,305**	**$624,522**	**$380,177**	**$244,345**	11%
TOTAL	**$38.19**	**$29.21**	**$8.07**	**$100,033**	**$78,903**	**$21,130**	**$10,603,550**	**$8,363,733**	**$2,239,817**	100%

(1) Based on 2013 Budget
Source: Economic & Planning Systems

Appendix 4
Queen Mary Parking Demand Model (Scenario 1)
Queen Mary Development Feasibility and Lease Amendment; EPS #124029
Scenario 1

Events										Estimated Daily Parking Demand				Estimated Offsite Parking Need					Estimated Impact on 2013 Ticket Sales			
MO	EVENT	EVENT PROFIT(1)	SW PROFIT(1)	Event Days	2013 Tickets(1)	2013 Tickets/ Event Day	Tickets/ Day/2012	Tickets/ Car	% tickets non-hotel guests	Event	Hotel (2)	Day Guest	**TOTAL**	Available Onsite Surface Parking	Daily Parking Surplus / (Deficit)	Parking Deficit % of Total Demand	Total Parking Demand	Net New Offsite Parking Required	**Est. Ticket Reduction Due to Parking Deficit**	**Thre-shold**	**Net After Thre-shold**	**Net Tickets Sold**
Jan	Speed Networking Lunch	$ 859	$ 920	1	35	35	25	2.50	100%	14	149	50	**213**	1,171	958		**213**	**0**	0%	0%	0%	35
Feb	Inspiration LA	17,830	23,205	2	1,500	750	750	2.50	75%	225	149	50	**424**	1,171	747		**849**	**0**	0%	0%	0%	1,500
Feb	Valentine's Day Mixer	463	1,813	1	200	200	158	2.50	95%	76	149	50	**275**	1,171	896		**275**	**0**	0%	0%	0%	200
Feb	QM Scot's Fest	48,221	139,591	2	7,490	3,745	3,405	2.50	95%	1,423	149	50	**1,622**	1,171	(451)	-28%	**3,245**	**858**	11%	0%	11%	6,652
Mar	BIL Conference	9,917	12,892	3	500	167	167	2.50	75%	50	149	50	**249**	1,171	922		**748**	**0**	0%	0%	0%	501
Mar	Shamrock 'N Roll	10,745	33,277	1	1,417	1,417	1,288	2.50	75%	425	149	50	**624**	1,171	547		**624**	**0**	0%	0%	0%	1,417
Mar	Delicious Food & Beer Festival	(3,253)	21,747	1	4,000	4,000	0	2.50	90%	1,440	149	50	**1,639**	1,171	(468)	-29%	**1,639**	**429**	12%	0%	12%	3,536
Apr	Punk Rock Picnic	12,304	35,174	1	4,000	4,000	0	2.50	90%	1,440	149	50	**1,639**	1,171	(468)	-29%	**1,639**	**429**	12%	0%	12%	3,536
Apr	Long Beach Business Expo	(740)	1,623	1	350	350	200	2.50	95%	133	149	50	**332**	1,171	839		**332**	**0**	0%	0%	0%	350
Apr	Rock the Queen	3,319	8,874	1	1,010	1,010	918	2.50	95%	384	149	50	**583**	1,171	588		**583**	**0**	0%	0%	0%	1,010
Apr	Tour de Cure	4,080	12,001	1	1,000	1,000	1,000	2.50	95%	380	149	50	**579**	1,171	592		**579**	**0**	0%	0%	0%	1,000
May	ToyotaFest	760	18,010	1	3,000	3,000	3,000	2.50	99%	1,188	149	50	**1,387**	1,171	(216)	-16%	**1,387**	**216**	4%	0%	4%	2,880
May	West Coast BBQ Classic	6,415	31,343	1	3,989	3,989	3,626	2.50	90%	1,436	149	50	**1,635**	1,171	(464)	-28%	**1,635**	**429**	11%	0%	11%	3,542
May	Poseidon	(10,545)	10,998	1	1,000	1,000	550	2.50	80%	320	149	50	**519**	1,171	652		**519**	**0**	0%	0%	0%	1,000
Jun	MECDA	29,300	32,800	3	2,000	667	667	2.50	80%	213	149	50	**412**	1,171	759		**1,237**	**0**	0%	0%	0%	2,001
Jun	Wekfest	10,402	28,652	1	3,000	3,000	3,000	2.50	95%	1,140	149	50	**1,339**	1,171	(168)	-13%	**1,339**	**168**	2%	0%	2%	2,940
Jun	Ink-N-Iron	121,879	332,655	4	21,000	5,250	5,000	2.50	95%	1,995	149	50	**2,194**	1,171	(1,023)	-47%	**8,777**	**1,716**	19%	11%	8%	19,320
Jun	Dia de San Juan Festival	13,013	30,863	1	3,000	3,000	3,000	2.50	95%	1,140	149	50	**1,339**	1,171	(168)	-13%	**1,339**	**168**	2%	0%	2%	2,940
Jun	Great Western Terrier Association	7,756	44,199	2	1,500	750	750	2.50	95%	285	149	50	**484**	1,171	687		**969**	**0**	0%	0%	0%	1,500
Jun	Long Beach Kennel Dog Show	7,868	26,807	2	1,500	750	750	2.50	95%	285	149	50	**484**	1,171	687		**969**	**0**	0%	0%	0%	1,500
July	4th of July	145,756	224,633	1	3,300	3,300	3,000	2.50	95%	1,254	149	50	**1,453**	1,171	(282)	-19%	**1,453**	**282**	6%	0%	6%	3,102
July	Catalina Ski Race Viewing Party	3,877	5,032	1	660	660	600	2.50	95%	251	149	50	**450**	1,171	721		**450**	**0**	0%	0%	0%	660
July	QM Concert	(1,560)	17,190	1	3,000	3,000	0	2.50	95%	1,140	149	50	**1,339**	1,171	(168)	-13%	**1,339**	**168**	2%	0%	2%	2,940
Aug	Art Deco Festival	14,356	32,770	3	263	88	83	2.50	99%	35	149	50	**234**	1,171	937		**703**	**0**	0%	0%	0%	264
Aug	Shoreline Jam	19,998	51,248	1	5,000	5,000	3,018	2.50	95%	1,900	149	50	**2,099**	1,171	(928)	-44%	**2,099**	**429**	18%	9%	8%	4,587
Sept.	Japanese Classic Car Show	2,585	14,335	1	4,000	4,000	4,000	2.50	99%	1,584	149	50	**1,783**	1,171	(612)	-34%	**1,783**	**429**	14%	0%	14%	3,456
Sept.	Mustang Car Show	2,638	12,513	1	3,500	3,500	3,500	2.50	99%	1,386	149	50	**1,585**	1,171	(414)	-26%	**1,585**	**414**	10%	0%	10%	3,136
Dec.	New Year's Eve	181,529	363,688	1	4,000	4,000	3,792	2.50	50%	800	149	50	**999**	1,171	172		**999**	**0**	0%	0%	0%	4,000
Oct.	Dark Harbor	300,455	733,711	15	70,000	4,667	4,240	2.50	99%	1,848	149	50	**2,047**	1,171	(876)	-43%	**30,709**	**6,435**	17%	8%	9%	63,555
Dec.	CHILL	745,339	2,099,282	50	220,000	4,400	4,000	2.50	99%	1,742	149	50	**1,941**	1,171	(770)	-40%	**97,063**	**21,450**	16%	5%	11%	196,550
All	2013 Filming	175,000	227,500	15	0	0	15	2.50	100%	0	149	50	**199**	1,171	972		**2,989**	**0**				
	Total	**$ 1,880,564**	**$ 4,629,346**	**121**	**375,214**	**3,540**											**167,082**	**34,022**				**339,610**
														New offsite parking required as % of demand				*20%*		*Impact on Ticket Sales*		*-9.5%*

(1) Based on 2013 Draft Budget Worksheet; "SW Profit," as defined by Evolution, adds net operating income for events to gross revenue from incremental hotel stays
(2) 65% occupancy * .4 cars/guest * 343 rooms + 60 staff cars

Source: Economic & Planning Systems

Appendix 5
Queen Mary Parking Demand Model (Scenario 2)
Queen Mary Development Feasibility and Lease Amendment; EPS #124029
Scenario 2

Events										Estimated Daily Parking Demand				Estimated Offsite Parking Need					Estimated Impact on 2013 Ticket Sales			
MO	EVENT	EVENT PROFIT[1]	SW PROFIT[1]	Event Days	2013 Tickets[1]	2013 Tickets/ Event Day	Tickets/ Day/2012	Tickets/ Car	% tickets non-hotel guests	Event	Hotel [2]	Day Guest	**TOTAL**	Available Onsite Surface Parking	Daily Parking Surplus / (Deficit)	Parking Deficit % of Total Demand	Total Parking Demand	Net New Offsite Parking Required	**Est. Ticket Reduction Due to Parking Deficit**	**Thre-shold**	**Net After Thre-shold**	**Net Tickets Sold**
Jan	Speed Networking Lunch	$ 859	$ 920	1	35	35	25	2.50	100%	14	149	50	**213**	370	157		**213**	**0**	0%	0%	0%	35
Feb	Inspiration LA	17,830	23,205	2	1,500	750	750	2.50	75%	225	149	50	**424**	370	(54)	-13%	**849**	**109**	2%	0%	2%	1,470
Feb	Valentine's Day Mixer	463	1,813	1	200	200	158	2.50	95%	76	149	50	**275**	370	95		**275**	**0**	0%	0%	0%	200
Feb	QM Scot's Fest	48,221	139,591	2	7,490	3,745	3,405	2.50	95%	1,423	149	50	**1,622**	370	(1,252)	-77%	**3,245**	**2,460**	31%	0%	31%	5,184
Mar	BIL Conference	9,917	12,892	3	500	167	167	2.50	75%	50	149	50	**249**	370	121		**748**	**0**	0%	0%	0%	501
Mar	Shamrock 'N Roll	10,745	33,277	1	1,417	1,417	1,288	2.50	75%	425	149	50	**624**	370	(254)	-41%	**624**	**254**	16%	0%	16%	1,185
Mar	Delicious Food & Beer Festival	(3,253)	21,747	1	4,000	4,000	0	2.50	90%	1,440	149	50	**1,639**	370	(1,269)	-77%	**1,639**	**1,230**	31%	0%	31%	2,768
Apr	Punk Rock Picnic	12,304	35,174	1	4,000	4,000	0	2.50	90%	1,440	149	50	**1,639**	370	(1,269)	-77%	**1,639**	**1,230**	31%	0%	31%	2,768
Apr	Long Beach Business Expo	(740)	1,623	1	350	350	200	2.50	95%	133	149	50	**332**	370	38		**332**	**0**	0%	0%	0%	350
Apr	Rock the Queen	3,319	8,874	1	1,010	1,010	918	2.50	95%	384	149	50	**583**	370	(213)	-37%	**583**	**213**	15%	0%	15%	861
Apr	Tour de Cure	4,080	12,001	1	1,000	1,000	1,000	2.50	95%	380	149	50	**579**	370	(209)	-36%	**579**	**209**	14%	0%	14%	856
May	ToyotaFest	760	18,010	1	3,000	3,000	3,000	2.50	99%	1,188	149	50	**1,387**	370	(1,017)	-73%	**1,387**	**1,017**	29%	0%	29%	2,124
May	West Coast BBQ Classic	6,415	31,343	1	3,989	3,989	3,626	2.50	90%	1,436	149	50	**1,635**	370	(1,265)	-77%	**1,635**	**1,230**	31%	0%	31%	2,760
May	Poseidon	(10,545)	10,998	1	1,000	1,000	550	2.50	80%	320	149	50	**519**	370	(149)	-29%	**519**	**149**	12%	0%	12%	884
Jun	MECDA	29,300	32,800	3	2,000	667	667	2.50	80%	213	149	50	**412**	370	(42)	-10%	**1,237**	**127**	0%	0%	0%	2,001
Jun	Wekfest	10,402	28,652	1	3,000	3,000	3,000	2.50	95%	1,140	149	50	**1,339**	370	(969)	-72%	**1,339**	**969**	29%	0%	29%	2,136
Jun	Ink-N-Iron	121,879	332,655	4	21,000	5,250	5,000	2.50	95%	1,995	149	50	**2,194**	370	(1,824)	-83%	**8,777**	**4,920**	33%	11%	22%	16,296
Jun	Dia de San Juan Festival	13,013	30,863	1	3,000	3,000	3,000	2.50	95%	1,140	149	50	**1,339**	370	(969)	-72%	**1,339**	**969**	29%	0%	29%	2,136
Jun	Great Western Terrier Association	7,756	44,199	2	1,500	750	750	2.50	95%	285	149	50	**484**	370	(114)	-24%	**969**	**229**	9%	0%	9%	1,360
Jun	Long Beach Kennel Dog Show	7,868	26,807	2	1,500	750	750	2.50	95%	285	149	50	**484**	370	(114)	-24%	**969**	**229**	9%	0%	9%	1,360
July	4th of July	145,756	224,633	1	3,300	3,300	3,000	2.50	95%	1,254	149	50	**1,453**	370	(1,083)	-75%	**1,453**	**1,083**	30%	0%	30%	2,310
July	Catalina Ski Race Viewing Party	3,877	5,032	1	660	660	600	2.50	95%	251	149	50	**450**	370	(80)	-18%	**450**	**80**	5%	0%	5%	625
July	QM Concert	(1,560)	17,190	1	3,000	3,000	0	2.50	95%	1,140	149	50	**1,339**	370	(969)	-72%	**1,339**	**969**	29%	0%	29%	2,136
Aug	Art Deco Festival	14,356	32,770	3	263	88	83	2.50	99%	35	149	50	**234**	370	136		**703**	**0**	0%	0%	0%	264
Aug	Shoreline Jam	19,998	51,248	1	5,000	5,000	3,018	2.50	95%	1,900	149	50	**2,099**	370	(1,729)	-82%	**2,099**	**1,230**	33%	9%	23%	3,827
Sept.	Japanese Classic Car Show	2,585	14,335	1	4,000	4,000	4,000	2.50	99%	1,584	149	50	**1,783**	370	(1,413)	-79%	**1,783**	**1,230**	32%	0%	32%	2,736
Sept.	Mustang Car Show	2,638	12,513	1	3,500	3,500	3,500	2.50	99%	1,386	149	50	**1,585**	370	(1,215)	-77%	**1,585**	**1,215**	31%	0%	31%	2,422
Dec.	New Year's Eve	181,529	363,688	1	4,000	4,000	3,792	2.50	50%	800	149	50	**999**	370	(629)	-63%	**999**	**629**	25%	0%	25%	2,992
Oct.	Dark Harbor	300,455	733,711	15	70,000	4,667	4,240	2.50	99%	1,848	149	50	**2,047**	370	(1,677)	-82%	**30,709**	**18,450**	33%	8%	25%	52,635
Dec.	CHILL	745,339	2,099,282	50	220,000	4,400	4,000	2.50	99%	1,742	149	50	**1,941**	370	(1,571)	-81%	**97,063**	**61,500**	32%	5%	27%	160,450
All	2013 Filming	175,000	227,500	15	0	0	15	2.50	100%	0	149	50	**199**	370	171		**2,989**	**0**				
	Total	**$ 1,880,564**	**$ 4,629,346**	**121**	**375,214**	**3,540**											**167,082**	**101,931**				**277,632**
														New offsite parking required as % of demand				*61%*		*Impact on Ticket Sales*		*-26.0%*

(1) Based on 2013 Draft Budget Worksheet; "SW Profit," as defined by Evolution, adds net operating income for events to gross revenue from incremental hotel stays
(2) 65% occupancy * .4 cars/guest * 343 rooms + 60 staff cars

Source: Economic & Planning Systems

APPENDIX C:

Fiscal Benefits Analysis Backup Tables

The Economics of Land Use

CELEBRATING 30 YEARS

Table of Tables
Table Number and Name
Fiscal Impact Analysis of the Queen Mary Project; EPS #124029

Summary Table 1
Select Annual Fiscal Revenues at Project Buildout (2013$)
Fiscal Impact Analysis of the Queen Mary Project; EPS #124029

Category	Total Annual Revenues Scenario 1	Total Annual Revenues Scenario 2
City General Fund Revenues		
Property Taxes	$1,109,279	$1,138,714
Property Tax in Lieu of VLF	$475,490	$488,107
Other Taxes [1]		
Sales Tax [2]	$25,159	$50,398
Utility Users Tax [3]	$7,440	$71,902
Transient Occupancy Tax	$480,431	$480,431
Business License Tax	$16,794	$16,794
Franchise Fees [4]	$4,396	$42,483
Licenses and Permits [5]	$3,369	$32,561
Fines and Forfeitures	$3,229	$31,204
Charges for Services	$2,746	$26,537
Total Annual General Fund Revenues	**$2,128,332**	**$2,379,131**

[1] Other taxes includes oil production tax, which is not estimated here.
[2] The sales tax total includes the .25 percent Triple Flip - Sales Tax Replacement.

[3] The City applies a 5 percent utility users tax (UUT) to customers' electricity, gas, telephone, and water bills.
[4] The City receives franchise fees from the electric and gas utilities, private refuse collection, and certain other entities for their privilege of using the public right-of-way within the City.

Sources: City of Long Beach Adopted Budget FY 2013; Economic & Planning Systems, Inc.

Table 2
Detailed Program Description and Assessed Value Assump [1]
Fiscal Impact Analysis of the Queen Mary Project; EPS #124029

Land Use	Planned Development		Assessed Value/Unit [2]	Assessed Value by Use [3]	Assessed Value by Scenario [3] Scenario 1	Scenario 2
Proposed New Land and Water Uses						
Events Area	109,201	sq.ft.	$23	$2,510,429	$2,510,429	$2,510,429
Hotel	150	rooms	$267,784	$40,167,543	$40,167,543	$40,167,543
Large-Vessel Marina [4]	14	berths	$80,625,000	$483,750,000	$483,750,000	$483,750,000
Marina Support	30,974	sq.ft.	$0	$0	$0	$0
Park and Pavilion	15,686	sq.ft.	$68	$1,072,929	$1,072,929	$1,072,929
Retail [5]	7,695	sq.ft.	$111	$1,714,237	$1,714,237	$1,714,237
Restaurant (non-Hotel) [5]	7,695	sq.ft.				
Surface Parking	475,456	sq.ft.	$4	$1,826,376	$1,826,376	$0
Circulation	91,471	sq.ft.	$7	$674,599	$674,599	$674,599
Plaza	66,577	sq.ft.	$24	$1,591,016	$1,591,016	$1,591,016
Parking Structure	0	spaces	$0	$0	$0	$0
Residential	370	units	$43,184	$15,978,083	$0	$15,978,083
Total					$533,307,129	$547,458,836

[1] Overall Project site includes 43.6 acres of land area and 20 acres of water area. Development program prepared by Studio One Eleven.

[2] For commercial uses, replacement costs are used as a proxy for Assessed Value estimate and include land and improvements.

[3] This is a static estimate of the assessed value and does not take into consideration inflation or property value appreciation.

[4] Megayacht owners who have registered their yachts in Los Angeles County will pay property tax based on the assessed value of the yacht. The assessed value will appear on the unsecured property tax roll. Not all berths will be occupied by owners who have registered their yacht in Los Angeles County. Marina assessed value assumes 43 percent of berths are used by yacht owners whose yachts are registered locally.

[5] Retail assessed value combines both Retail and Restaurant (non-Hotel) uses

Sources: Studio One Eleven; The Corrough Consulting Group; Economic & Planning Systems, Inc.

Table 3
Daytime Service Population Estimate
Fiscal Impact Analysis of the Queen Mary Project; EPS #124029

Land Use	Planned Development	Square Feet / Employee [1]	Project Employees		Persons/ House-hold [2]	Occupied Households [3]		Project Residents		Day Service Population [4]	
			Sc. 1	Sc. 2		Sc. 1	Sc. 2	Sc. 1	Sc. 2	Sc. 1	Sc. 2
Proposed New Land and Water Uses											
Events Area	109,201 sq.ft.	0 [5]	0	0	0	0	0	0	0	0	0
Hotel	150 rooms	1 [6]	150	150	0	0	0	0	0	75	75
Large-Vessel Marina	14 berths	-	-	-	0	0	0	0	0	-	-
Marina Support	30,974 sq.ft.	1,032 [7]	30	30	0	0	0	0	0	15	15
Park and Pavilion	15,686 sq.ft.	0 [5]	0	0	0	0	0	0	0	0	0
Retail	7,695 sq.ft.	500	15	15	0	0	0	0	0	8	8
Restaurant (non-Hotel)	7,695 sq.ft.	300	26	26	0	0	0	0	0	13	13
Surface Parking	475,456 sq.ft.	0 [5]	0	0	0	0	0	0	0	0	0
Circulation	91,471 sq.ft.	0 [5]	0	0	0	0	0	0	0	0	0
Plaza	66,577 sq.ft.	0 [5]	0	0	0	0	0	0	0	0	0
Parking Structure	0 spaces	2,500	0	0	0	0	0	0	0	0	0
Residential	370 units	-	0	0	2.79	0	344	0	958	0	958
Total			221	221		0	344	0	958	111	1,068

[1] Square feet per employee estimates provided by EPS based on previous experience with similar projects.
[2] Persons per household is Citywide average per DOF 2012 estimate.
[3] Assumes % vacancy for all residential units per DOF 2012 estimate.
[4] In cases where total new residents or total new employment does not accurately reflect relative service demands, an additional measure of service demand is used - daytime service population (100 percent of residents plus1/2 of employment).
[5] For purposes of this analysis, low employment density use is assumed to generate zero full time employees, which is a conservative assumption in that in underestimates potential revenues.
[6] Assumes 1 employee per hotel room.
[7] Total employment for marina support use is provided by the Corrough Consulting Group.

Sources: California Department of Finance; The Corrough Consulting Group; Economic & Planning Systems, Inc.

Table 4
Citywide Demographic Data
Fiscal Impact Analysis of the Queen Mary Project; EPS #124029

Item		Amount	Source
Population (2012)	a	464,662	DoF
Persons per Household (2012)		7.10%	DoF
Total Jobs (2010)	b	152,166	Census
Daytime Service Population [1]	c	540,745	c = a + 1/2 * b

[1] "Daytime Service Population" equals 100 percent of City residents plus 1/2 of City jobs. This measure of service population is used for cost impacts where employment affects the demand for service but by less than the residential demand.

Sources: California Department of Finance; U.S. Census Bureau (LED On The Map); Economic & Planning Systems, Inc.

Table 5
General Fund Revenue 2012/13 and Estimating Factors
Fiscal Impact Analysis of the Queen Mary Project; EPS #124029

General Fund Revenue Item	FY 2013 Adopted General Fund	Table Reference	Estimating Factor/Assumptions		Scenario 1	Scenario 2
Property Taxes	$74,694,885	Table 6	20.80%	of 1.0% Property Tax	$1,109,279	$1,138,714
Property Tax in Lieu of VLF	$39,319,000	Table 7		based on increase in AV	$475,490	$488,107
Other Taxes [1]						
Sales Tax [2]	$60,871,556	Table 8	1.00%	of estimated taxable sales	$25,159	$50,398
Utility Users Tax [3]	$36,400,000		$67.31	per daytime service pop.	$7,440	$71,902
Transient Occupancy Tax	$13,015,403	Table 9	12.00%	of room revenue, 50% to GF	$480,431	$480,431
Real Property Transfer Tax	$990,000		-	not estimated		
Business License Tax	$11,561,000		$75.98	per employee	$16,794	$16,794
Other Taxes	$2,589,200					
Franchise Fees [4]	$21,506,637		$39.77	per daytime service pop.	$4,396	$42,483
Licenses and Permits [5]	$20,083,674		$30.48	per daytime service pop.	$3,369	$32,561
Fines and Forfeitures	$15,796,593		$29.21	per daytime service pop.	$3,229	$31,204
Use of Money & Property	$14,819,766		-	not estimated		
Revenue from Other Agencies	$3,861,201		-	not estimated		
Charges for Services	$13,434,336		$24.84	per daytime service pop.	$2,746	$26,537
Other Revenues	$4,922,938		-	not estimated		
Interfund Services-Charges	$6,860,978		-	not estimated		
Intrafund Services - General Fund Charges	$3,243,701		-	not estimated		
Harbor P/R Revenue Transfers	-		-	not estimated		
Other Financing Sources	-		-	not estimated		
Operating Transfers	$52,860,373		-	not estimated		
Total General Fund Revenue	**$396,831,241**				**$2,128,332**	**$2,379,131**

[1] Other taxes includes oil production tax.
[2] The sales tax total includes the .25 percent Triple Flip - Sales Tax Replacement.
[3] The City applies a 5 percent utility users tax (UUT) to customers' electricity, gas, telephone, and water bills.
[4] The City receives franchise fees from the electric and gas utilities, private refuse collection, and certain other entities for their privilege of using the public right-of-way within the City.
[5] Average licenses and permits revenue per daytime service population is adjusted to account for a one-time revenue increase of $3.6 million.

Sources: City of Long Beach Adopted Budget FY 2013; Economic & Planning Systems, Inc.

Table 6
Property Tax Calculation
Fiscal Impact Analysis of the Queen Mary Project; EPS #124029

Category	Assumptions/Reference		Scenario 1	Scenario 2
Project Assessed Value (Incremental Value)	See	Table 2	$533,307,129	$547,458,836
Property Tax Total	1.0%	of Assessed Value	$5,333,071	$5,474,588
Share of Property Tax to General Fund [1]			20.80%	20.80%
Property Tax to General Fund			**$1,109,279**	**$1,138,714**

[1] Tax allocation rate is provided by the City of Long Beach and represents a Citywide average.

Sources: City of Long Beach; Economic & Planning Systems, Inc.

Table 7
Property Tax In-Lieu of Vehicle License Fee (VLF) Calculation
Fiscal Impact Analysis of the Queen Mary Project; EPS #124029

Item	Scenario 1	Scenario 2
Base Value for Property Tax in-lieu of VLF (FY 2013)	$39,319,000	$39,319,000
Citywide Assessed Value (2013 Base Value)	$44,100,000,000	$44,100,000,000
Project Assessed Value	$533,307,129	$547,458,836
% Increase in Assessed Value	1.2%	1.2%
Total property tax in-lieu of VLF (Above the Base)	$475,490	$488,107

Sources: City of Long Beach, Financial Management Department; Economic & Planning Systems, Inc.

Table 8
Sales Tax Calculation
Fiscal Impact Analysis of the Queen Mary Project; EPS #124029

Category	Assumptions		Scenario 1	Scenario 2
Project Site Retail Sales				
Square Feet of Project Retail			7,695	7,695
Taxable Sales	$0	per square foot	$0	$0
Subtotal, Net New Sales Tax to the City [1]	*1.00%*	*of taxable sales*	*$0*	*$0*
Project Site Restaurant Sales				
Square Feet of Restaurant Space			7,695	7,695
Taxable Sales	$0	per square foot	$0	$0
Subtotal, Net New Sales Tax to the City [1]	*1.00%*	*of taxable sales*	*$0*	*$0*
Hotel Food and Beverage Sales				
Taxable Sales			$2,308,500	$2,308,500
Subtotal, Net New Sales Tax to the City [1]	*1.00%*	*of taxable sales*	*$23,085*	*$23,085*
Employee Expenditures				
Total Employees			221	221
Average Annual Taxable Expenditures per Employee [:	$3,754	per employee	$829,674	$829,674
Net New Employee Taxable Expenditures [3]	25%	of expenditures	$207,418	$207,418
Subtotal, Net New Sales Tax to the City [1]	*1.00%*	*of taxable sales*	*$2,074*	*$2,074*
Household Expenditures				
Household Income Assumptions				
Average Annual Rent				$48,000
Ratio of Housing Expenditures to Household Income				35%
Required Household Income per Unit				$137,143
Average Taxable Expenditures per Household [4]	21%	of household income		$29,370
City Capture of New HH Expenditures [5]	25%	of expenditures		$7,343
Occupied Households	344	units		
Net New Residential Taxable Expenditures				$2,523,875
Subtotal, Net New Sales Tax to the City [1]	*1.0%*	*of taxable sales*	*$0*	*$25,239*
Total Sales Tax Generated			**$25,159**	**$50,398**

[1] Represents the local jurisdiction's share of taxable sales.
[2] Based on the annual workday spending by office workers in urban locations as reported by the Office Worker Retail Spending in a Digital Age, International Council of Shopping Centers Research Department. Estimate includes average annual spending of office workers on full-service restaurants and fast food, shoppers goods, and convenience goods. Estimate excludes transportation, online purchases, grocery stores, warehouse clubs, personal care, personal services, other services and entertainment.
[3] Adjusts estimate to account for percentage of net new taxable spending captured in the City of Long Beach.
[4] Based on the Bureau of Labor Statistics Consumer Expenditure Survey; varies by household income.
[5] Assumes 25% of retail expenditures made by new residents are captured within the City of Long Beach.

Sources: U.S. Bureau of Labor Statistics; Economic & Planning Systems, Inc.

Table 9
Transient Occupancy Tax Calculation
Fiscal Impact Analysis of the Queen Mary Project; EPS #124029

Item	Assumption		Amount
Number of Hotel Rooms			150
Average Daily Rate [1]	$195	per room per night	
Average Annual Occupancy [2]	75%		
Average Annual Revenue			$8,007,188
Total Annnual Room Revenue			$8,007,188
Transient Occupancy Tax [3]	12%		$960,863
to General Fund	50%		$480,431
to Special Advertising and Promotion Fund [4	50%		$480,431

[1] Daily rate based on low end of Tier 1 hotel rate assumptions, as noted in EPS Market Study, December 2011.
[2] Occupancy rate based on research provided in EPS Market Study, December 2011.
[3] Of total TOT, 50% is allocated to the City's General Fund and 50% is allocated to the Special Advertising and Promotion Fund.
[4] The revenues are restricted for use to advertising, promotional, and public relations projects calling attention to the City.

Source: City of Long Beach; EPS Draft Market Study, December 2012; Economic & Planning Systems, Inc

The Economics of Land Use

APPENDIX D:

Lease Abstract

QUEEN MARY
LEASE ABSTRACT

THIS IS A BRIEF SUMMARY OF CERTAIN INFORMATION CONTAINED IN THE LEASE (AS DEFINED BELOW). ALTHOUGH IT IS INTENDED TO FACILITATE AN UNDERSTANDING OF THE LEASE, THE FOLLOWING IS NOT A SUBSTITUTE FOR THE LEASE AND REFERENCE SHOULD BE MADE TO SUCH LEASE ITSELF TO ENSURE A PROPER LEVEL OF DETAIL AND ACCURACY.

	Subject/ Section References	**Summary of Information**
1.	**LEASE, LANDLORD AND TENANT**	
	Lease	First Amended Lease and Operations Agreement of Queen Mary, Adjacent Lands and Improvements, Dome and Queen's Marketplace (the "Lease"), dated October 29, 1998, by and between the City of Long Beach, a municipal corporation and trust grantee of the State of California of certain tide and submerged lands ("Landlord"), and Queen's Seaport Development, Inc., a California corporation ("Tenant"). ***[Note: The Lease does not explicitly amend and restate the original lease dated August 1, 1995. We should confirm that the original lease has been properly terminated.]***
2.	**PREMISES AND OTHER LEASED PROPERTY**	
	Leased Premises	The "Premises" consists of: (i) the RMS Queen Mary; (ii) approximately 9.29 acres of water surrounding the RMS Queen Mary within the enrockment; (iii) approximately 43.38 acres of land adjacent to the RMS Queen Mary and improvements thereon, including the "Dome" and "Queen's Marketplace"; and (iv) certain additional water rights of approximately 11.55 acres adjacent to the RMS Queen Mary and the Catalina Channel Express facilities. [§ 2] The Premises were accepted by Tenant on an "as-is" and "with all faults" basis. [§§ 2.4-2.5]
	Energy Plant	Landlord grants to Tenant, as its designee, the right to use, occupy, operate and maintain an energy plant and related equipment, pipelines and appurtenances located on 0.88 acres of land (the "Energy Plant"), which provide steam heat and chilled water for heating and air conditioning systems of the RMS Queen Mary. [§2.1] Tenant must use best efforts to have the energy plant relocated to a site within the Premises, subject to the obligation of the Board of Harbor Commissioners to pay for such relocation, if any, pursuant to City of Long Beach Harbor Department Resolution HD-1605. [*Id.*] ***[Note: We recommend confirming that the energy plant has been relocated and, if not, determining the extent of the Board's funding obligation.]***
	Personal Property	Tenant leases certain personal property used in connection with the RMS Queen Mary, which are detailed on a "Fixed Asset Report". [§2.2] ***[Note: The Fixed Asset Report is not attached to the Lease and has not been reviewed.]***

	Catalina Channel Express	Landlord assigned to Tenant a revocable permit, pursuant to which Catalina Channel Express leased a portion of the Premises from Landlord. The permit was scheduled to expire December 31, 2002. [§2.3] ***[Note: We recommend confirming that Catalina Channel Express has not further right to the Premises, whether by subsequent permit or otherwise.]***
3.	**TERM**	
	Term	66 years, commencing August 1, 1995 and ending July 31, 2061. [§3]
4.	**USE**	
	Permitted Uses	The Premises must be used for the purposes described below and for no other purpose, unless Tenant obtains the prior written consent of Long Beach City Manager ("<u>Manager</u>"): • <u>RMS Queen Mary</u>: Must be operated as a first class hotel, with a minimum of three (3) restaurants, tours and other lawful purposes that have been conducted aboard the RMS Queen Mary prior to execution of the Lease. Other uses may be permitted with written permission of the Manager. [§ 4.1] • <u>Balance of Premises</u>: Must be used for the purposes described in a draft environmental impact report dated May 1998 and final environmental impact report dated June 1998, subject to changes approved by Landlord and Tenant (which may require additional environmental analysis). [§ 4.2] • <u>Parking</u>: Is a permitted use, but only to the extent such parking is accessory to the foregoing uses. [§ 4.2] • <u>Other Use Restrictions</u>: No use or activity prohibited by Chapter 9.20 of the Long Beach Municipal Code as of October 29, 1998 is permitted (related to adult entertainment use). Any use or activity involving festival seating requires the prior written consent of the Manager. [§ 4.2]
	EIR Scope of Development	• <u>Phase Two</u> (scheduled for completion in 2001): New on-board RMS Queen Mary attractions; new retail and restaurant on Quay Street; a new Science Fiction Hall of Fame; a new structured parking facility for 3,500 vehicles and improvements to surface parking; a new Catalina Express Terminal; a new yacht club hotel with 150-200 rooms; and new and improved infrastructure including a new 3-acre transient marina for 50 yachts, a water taxi dock, a new enrockment boardwalk, a new stair and elevated plaza, a new internal street system, improvements to Harbor Scenic Drive, and an improved connection to the 710 freeway. • <u>Phase Three</u> (scheduled for completion in 2003): Enhancement of the Dome into a 7,500 seat event facility; enhancement of existing outdoor Event Park to include an amphitheater and grassed berm seating; a new Major Theme Attraction; and additional retail development on Quay Street. [EIR, pages 13-14]
5.	**RENT, TAXES, UTILITIES, SECURITY DEPOSIT**	
	Base Rent	$25,000.00 per month. [§ 5.1]
	Percentage Rent – Non-Waterfront Property	Percentage Rent realized from business conducted on the RMS Queen Mary, the Dome or any other portion of the Premises that is *not* Waterfront Property (as defined below)

		is equal to the sum of items (1) and (2) below. (1) Non-Dome Gross Receipts: The sum of: o Three percent (3%) of Gross Receipts (as defined below) between $0 and $17,499,999.99; o Four percent (4%) of Gross Receipts between $17,500,000.00 and $22,999,999.99; and o Five percent (5%) of Gross Receipts in excess of $22,999,999.99. [§ 5.2] If Tenant did not complete construction of Phase One and commence construction of Phase Two on or before December 31, 2005, then each of the above listed percentages is increased by 1.0% for each year thereafter. [§ 5.2.1] ***[Note: We recommend confirming whether construction was completed and commenced in accordance with the foregoing schedule in order to determine the present formula for determining Gross Receipts for areas other than the Dome.]*** (2) Dome Gross Receipts: Two and one-half percent (2.5%) of Gross Receipts realized from business operations conducted within the Dome or, if any subtenants within the Dome receives more than half of its gross receipts from retail sales, 2.5% of the rent received by Tenant from its said subtenants. [§ 5.3] **[Note that under a strict read, if there is even just one small subtenant that qualifies, then T would only be obligated to pay 2.5% of its rent]** "Gross Receipts" means: (i) gross revenue realized by Tenant or the RMS Foundation, Inc. or is successors ("Foundation") from business operations on the RMS Queen Mary; (ii) rent received by Tenant or the Foundation from any subtenant, licensee or concessionaire on the RMS Queen Mary which receives the majority of its revenue from retail sales and subleases less than 1,500 square feet; (iii) gross revenue realized by any subtenant, licensee or concessionaire which does not receive a majority of its revenue from retail sales aboard the RMS Queen Mary or subleases less than 1,500 square feet; (iv) allocatable gross revenue realized by Tenant, the Foundation or any subtenant from parking; (v) gross revenue realized by Tenant from its own business on property adjoining the RMS Queen Mary (excluding the Dome); and (vi) gross revenue realized by subtenants, licensees and concessionaires on property adjoining the RMS Queen Mary (excluding the Dome). Gross Receipts does not include certain non-earned income, as described in more detail in the Lease. [§§ 5.2.2-5.2.3] ***[Note: Gross Receipts is defined in specific reference to determining non-Dome Gross Receipts, and a definition of Gross Receipts for other purposes is not provided in the Lease. Despite this apparent error, we assume that Gross Receipts would be calculated in the same manner, but based on revenue arising from the Dome.]***
	Percentage Rent – Waterfront Property	In order to incentivize development, the Lease imposes a different Percentage Rent formula for the "Waterfront Property", which includes 43.38 acres of land identified as the "Queen Mary Land Area" and the 11.55 acres of water rights identified as the "Development Side Water Rights" on Exhibit 2 to the Lease. Any element that is constructed partially within the Waterfront Property and partially within the enrockment area will be deemed to be Waterfront Property for purposes of calculating Percentage Rent.

		Percentage Rent is equal to the lesser of: (1) Five percent (5%) of the that year's Gross Receipts realized by Tenant and its subtenants, licensees and concessionaires; or (2) That year's Gross Operating Revenue (as defined below) realized from business operations within the Waterfront Property, less: (a) Tenant Operating Expenses (as defined below); and (b) Nine percent (9%) of the Development Costs (as defined below). Items (a) and (b) are referred to as "Deductions". Note: The calculation of Percentage Rent as described in (2) above is only permitted as to any element (defined as the entirety of work to be done under a single permit) contained in a Phase until December 31st following the 144th month after the first construction permit is issued for such element, and in no event later than the year 2019. [§ 5.4] Note: The calculation of Percentage Rent as described in (2) above may not be used after the cumulative yearly amount of Deductions equals the total Development Costs (excluding Deductions for years in which Percentage Rent was paid pursuant to the formula described in (1) above). [§ 5.5] "Development Costs" means: (i) predevelopment costs; (ii) costs payable to third parties associated with offsite improvements and demolition; (iii) costs payable to third parties for the development (including site work, shell costs, signage, etc., net of reimbursement by subtenants where applicable); (iv) reasonable overhead (not to exceed 4% of all Development Costs); and (v) any expenditures made by Tenant in (i), (ii) or (iii) to the extent such amount does not exceed what would reasonably have been paid to a third party. [§ 5.6] For purposes of calculating Percentage Rent, Development Costs include any Development Costs incurred on the Waterfront Property by any subtenant of Tenant if Manager has approved all agreements between Tenant and subtenant relating to such expenditures (except a sublease to the Foundation, for which Manager's approval is not required). [§ 5.7] "Gross Operating Revenue" means all gross income, rentals, revenues, payments and consideration resulting from ownership, operation, leasing or occupancy of the Premises, including but not limited to: (i) fixed and percentage rents; (ii) rents and receipts from licenses, concessions and filming fees; (iii) proceeds from business interruption insurance or takings awards; (iv) proceeds from reserve accounts or earned interest associated with any assessment district financing; and (v) reimbursement of common expenses by subtenants. [§ 5.8] "Tenant's Operating Expenses" include reasonable and customary operating expenses. Actual management expenses that do not exceed 4% of gross operating revenue and a capital replacement reserve that does not exceed 2% of net operating revenue may be deducted from Tenant's Operating Expenses. [§ 5.9] **[**
	Taxes	Tenant is responsible for paying any property taxes, assessments and other governmental and district charges levied on Tenant's possessory interest in the Premises, the improvements or Tenant's personal property as and when due. Tenant has the right to contest any taxes in good faith. [§ 10]
	Utilities	Tenant is responsible for paying for all utilizes and related services furnished to the Premises. [§ 21]

		Tenant is responsible for operating and maintaining the Energy Plant. [*Id.*]
	Security Deposit	$25,000.00 [§ 9]
6.	**ALTERATIONS, MAINTENANCE**	
	Alterations, Additions, Improvements	Consent Required to Alter. The prior written consent of the Manager (which shall not be unreasonably withheld) is required to: (i) make any alteration, addition or improvement affecting the structural integrity, historic character, or the design and configuration of the RMS Queen Mary; (ii) make any improvements to the Waterfront Property; or (iii) make any alteration affecting the structural integrity of the Dome. Improvements contemplated by the EIR are approved by Landlord in concept, but still subject to the aforementioned consent requirement. [§13] To obtain Manager's consent, Tenant must submit: (i) reasonably detailed plans and specifications; (ii) a statement describing the reason for the alteration, addition or improvement; (iii) the contemplated use; (iv) the anticipated cost; and (v) the estimated time for completion. Landlord must respond within 15 days, and any failure to respond shall be deemed an approval. [*Id.*] Tenant's Expense; Lien-Free. All work shall be at Tenant's expense and performed in a workmanlike manner with high quality parts and materials. Tenant must keep the Premises free from liens, and indemnifies Landlord for any lien that is not released or bonded over in an amount equal to 125% of the lien. [*Id.*]
	Maintenance and Repairs	Maintenance Obligations. Tenant must: (i) keep the RMS Queen Mary in good condition and repair, to a standard at least as high as that to which the vessel was kept in 1994; (ii) keep the Premises, all improvements and all furnishings and fixture in good condition and repair; (iii) keep the Premises free from litter and the landscaping neat; and (iv) comply with the terms of the Base Maintenance Plan attached to the Lease as Exhibit 5. Manager may amend the maintenance obligation at his/her discretion, but may not impose a greater burden on Tenant than existed under plans in effect in prior years unless warranted by changed circumstances. [§14] Cost of Maintenance. Except with respect to the Queen Mary Reserve Fund, all maintenance is at Tenant's sole cost. [*Id.*] Queen Mary Reserve Fund. Landlord is obligated to establish and maintain a subfund in the Tideland Operating Fund to be used for making necessary improvements to the RMS Queen Mary (the "Queen Mary Reserve Fund"). Prior to completion of the Phase Two improvements, Landlord must deposit 20% of the rent received from Tenant in excess of $1 million (excluding any pass through rent from Catalina Channel Express) into the Queen Mary Reserve Fund. Following completion of the Phase Two improvements, such percentage is increased to 30%. ***[Note: We recommend confirming that the Phase Two improvements were completed and that Landlord is depositing the correct amount into the Queen Mary Reserve Fund.]*** Any distribution from the Queen Mary Reserve Fund requires the authorization of Manager, which shall not be unreasonably withheld. No funds may be disbursed until completion of the "Teak Deck Project". ***[Note: We recommend confirming that the Teak Deck Project has been completed.]*** All persons paid with funds from the Queen Mary Reserve Fund (excluding persons employed in the refurbishment of the RMS Queen Mary) must be paid prevailing wages (as defined in Section 1770 *et seq.* of the California Labor Code). [§ 15] In addition, Landlord agreed to pay and fund from the Queen Mary Reserve Fund $5 million in connection with the refurbishment of the RMS Queen Mary, which were to be paid in connection with $6 million from Tenant. [*Id.]* ***[Note: We recommend confirming that these obligations have been satisfied.]***

	Landlord Right to Inspect	Landlord will designate a representative to inspect the Premises from time to time. If Landlord determines that Tenant has failed to maintain the Premises as required by the Lease, Landlord shall notify Tenant and designate a cure period. [§16]
7.	**DAMAGE OR DESTRUCTION**	
	Casualty [§24]	If the Premises or improvements are partially or totally destroyed, the Lease shall remain in effect and Tenant shall promptly restore the improvements to substantially the same condition so long as (i) the restoration is permitted under existing laws and (ii) the insurance proceeds are sufficient to cover the restoration. If either (i) or (ii) is not the case, Tenant may terminate by delivering written notice to Landlord. [§24] If the RMS Queen Mary is partially or totally destroyed, the Lease shall remain in effect unless the cost of restoration exceeds $1 million. If the cost of restoration exceeds $1 million, Tenant may terminate the Lease with respect to the RMS Queen Mary only. If the cost of restoration is less than $1 million, Tenant must repair the damage. [*Id.*] Rent shall be abated during any period of repair. [*Id.*]
	Condemnation	If the entire Premises or improvements are taken by eminent domain, then the Lease shall terminate. If there is a partial taking and the remaining portion cannot be restored to an economically operable facility of comparable kind and quality, then Tenant may terminate the Lease. If there is a partial taking and the remaining portion can be restored to an economically operable facility, the Lease shall remain in effect subject to a reduced rent agreed to by Landlord and Tenant. [§25]
8.	**INSURANCE & INDEMNITIES**	
	Insurance Requirements	Tenant must maintain for the duration of the Term the following insurance policies in the following minimum amounts: (3) Commercial general liability insurance ($10 million per occurrence and in the aggregate) or self-insurance; (4) Workers' compensation insurance (as required by law) and employer's liability insurance ($1 million); (5) Automobile liability insurance including garagekeeper's liability ($2 million combined single limit per accident); (6) "All-Risk" property insurance covering replacement of the RMS Queen Mary ($50 million); (7) "All-Risk" property insurance covering replacement of the Dome and Marketplace (full replacement value); (8) "All-Risk" property insurance covering replacement of buildings and structures on the Premises and personal property (full replacement value); and (9) Business interruption insurance (providing for rent due to Landlord for 12 months). [§11]
	Indemnity	Tenant indemnifies Landlord, the Board of Harbor Commissioners, and their officers and employees from injury, loss, claims, causes of action, demands or damages to person or property while on the Premises or in connection with Tenant's operations or

		as a result of Tenant's wrongful omission, neglect or fault. [§12]
9.	**DEFAULTS AND REMEDIES**	
	Tenant's Defaults	The following constitute a Tenant default under the Lease • Failure to pay rent when due if such failure continues for 10 days after written notice; • Failure to perform any other obligation if such failure continues for 15 days after written notice; • Abandonment of the Premises, including an absence from the Premises for seven (7) consecutive business days while in default; • A general assignment for the benefit of creditors; the filing of bankruptcy or insolvency proceedings (unless dismissed within 60 days); the appointment of a trustee or receiver to take possession of Tenant's assets (unless unconditionally restored within 30 days); or any execution of judicially authorized seizure of Tenant's assets (unless discharged within 30 days); • Failure to operate the hotel, supporting restaurants and tours of the RMS Queen Mary for 30 consecutive days, provided that no refurbishment of the RMS Queen Mary shall constitute such a "failure to operate" so long as the refurbishment lasts no more than 6 consecutive months and no more than 365 days in any 5 year period (unless the result of substantial damage or destruction); and • Committing waste on the Premises. [§27.1]
	Landlord's Remedies	Landlord has the following remedies under the Lease, in addition to any available at law or in equity: • Terminate the Lease and recover from Tenant: (i) any unpaid rent earned prior to termination; (ii) rent that would have been earned through the remainder of the Term, less the amount that Tenant proves could reasonably have been avoided; (iii) any other amount necessary to compensate Landlord for Tenant's failure to perform (e.g. brokerage commissions); and (iv) any other amount permitted by law; and • Continue the Lease and enforce the right to recover rent as it becomes due. [§27.3] If Tenant fails to perform an obligation for 20 days after notice, Landlord may perform the obligation and Tenant must reimburse Landlord within 15 days of demand. [§ 28] In addition, payments due under the Lease, which are not paid within 10 days of written notice, bear interest at the maximum rate permitted by law. [§ 26]
	Tenant's Remedies	Tenant's sole remedy is to sue for damages, injunctive relief or declaratory relief. Tenant may not terminate the Lease or vacate the Premises as a result of a default by Landlord. [§27.7]
10.	**ASSIGNMENT AND SUBLETTING**	

	Assignment	Restricted Transfers. Tenant may not make any "Transfers" prior to completion of Phase One. Thereafter, a Transfer is not permitted without Landlord's written consent, which shall not be unreasonably withheld. Notwithstanding the foregoing, Landlord's consent is not required to assign the Lease to an affiliate of Tenant so long as certain conditions are met, including that the affiliate's net worth be equal to or greater than Tenant's. [§ 17] "Transfer" includes: (i) an assignment, mortgage, pledge, encumbrance or otherwise transfer Tenant's interest in the Lease; (ii) any sublease or occupancy of any portion of the Premises, other than by Tenant or the Foundation; or (iii) any change in control of Tenant (as such term is more particularly described in Section 17.5.1 of the Lease). [§ 17.1.1] A foreclosure or conveyance in lieu thereof does not constitute a Transfer requiring consent. [§ 19.8] Procedure & Fees. Tenant must submit a Transfer Notice (as more particularly described in the Lease) at least 45 days prior to the proposed transfer. Landlord's consent or denial shall be granted within 14 days, and shall be deemed granted if not acted upon within such 14 day period. Tenant must pay a transfer fee of 10% of the price of either (i) the distributive share (based on ownership of shares of Tenant's stock) of Joseph P. Prevratil and/or Paul Simon Leevan resulting from an assignment of the Lease, or (ii) any proceeds realized by the foregoing resulting from an assignment of shares of Tenant's stock. [§ 17]
	Sublet	Landlord's prior written consent is required to sublet portions of the Premises, which sublet may not exceed 150,000 square feet per any one subtenant. Landlord's consent or denial shall be granted within 14 days of receipt of a copy of the proposed sublease, and shall be deemed granted if not acted upon within such 14 day period. [§ 17.6] The termination of the Lease will not affect the validity of any sublease, and Tenant's interest as sublessor shall be deemed assigned to Landlord. [§ 23]
11.	**MORTGAGEE PROTECTIONS**	
	Right to Mortgage	Tenant may mortgage all or a portion of its interest in the leasehold estate. Tenant must deliver to Landlord a copy of the applicable note or mortgage. [§19.1]
	Mortgagee Rights	Right to Replace Directors/Officers. If there is an uncured default by Tenant, mortgagee has a right to effectuate a change of control of the board of directors of tenant and such board may appoint new officers. [§ 19.2] ***[Note: This provision is unlikely to be enforceable against a tenant if the organizational documents of such tenant do not similarly provide for replacement by a lender.]*** Rights of Mortgagee of Entire Premises. Provided mortgagee has delivered written notice to Landlord, (i) Landlord will deliver a notice of default to mortgagee concurrently with any such notice delivered to Tenant, (ii) mortgagee will have the right to perform any obligation of Tenant, (iii) mortgagee or its assignee for value may succeed to the interests of Tenant under the lease following a foreclosure or deed in lieu of foreclosure, provided any assignee assumes Tenant's obligations in writing, (iv) mortgagee will have the right to pay any rents due, but only for a period of 30 days following Tenant's deadline for paying the same, (v) following a non-rent default, Landlord will not terminate the Lease without first giving mortgagee reasonable time to effect a change of control (as described above), obtain possession of the Premises, or institute foreclosure proceeding, (vi) the Lease will remain in full force and effect if a default has been cured or foreclosure proceedings discontinued, and (vii) an assignment resulting from foreclosure proceedings or deed in lieu will be deemed a permitted transfer. [§ 19.3]

		Rights of Mortgage of Partial Premises. Provided mortgagee has delivered written notice to Landlord, (i) Landlord will notify mortgagee of a default as provided above, and identify the elements of such default attributable to the applicable encumbered property, (ii) mortgagee will have the right to cure such default to the extent attributable to the applicable encumbered property in the manner set forth above, thereby avoiding forfeiture of the Lease as to the applicable encumbered property, and (iii) in the event of a foreclosure on a portion of the Premises, Landlord will delete such portion from the description of the Premises contained in the lease and will tender to mortgagee or its assignee a replacement lease upon the same terms and conditions. [§ 19.4] Estoppel Certificates. With 15 days of written request from Tenant, Landlord will deliver an estoppel certificate to Tenant stating that the Lease is in full force and effect, there are no known uncured defaults, the commencement date and the date to which rent has been paid. [§ 19.5] Within 20 days of written request by mortgagee, Landlord will deliver an estoppel certificate to mortgagee. Tenant Bankruptcy. If a mortgagee is prohibited from commencing or prosecuting foreclosure proceedings due to bankruptcy or insolvency proceedings involving Tenant, the time for prosecuting such foreclosure will be extended provided that mortgagee cures any monetary default of Tenant and continues to pay monetary obligations as they become due. [§ 19.6] Termination of Lease. If the Lease is terminated for any reason (including Tenant default or rejection of the Lease in bankruptcy proceedings), and if requested by any mortgagee, Landlord will enter into a new lease with the most senior mortgagee requesting a lease of the same terms as the Lease for the remainder of the term, provided (i) the mortgagee submits a written request within 20 days after termination of the Lease, (ii) mortgagee pays all sums that would be due and payable under the Lease but for its termination, and (iii) mortgagee performs all covenants of Tenant contained in the Lease. Any new lease will be subordinate to any mortgage or encumbrance, and will be accompanied by ownership of the improvements for so long as the new lease remains in effect. [§ 19.7] Upon request, Landlord will pursue legal remedies to oust the original Tenant and subtenants, but will not seek to terminate any sublease until it has received notice from all mortgagees that none will seek to enter into a lease.[§§ 19.10-11] Limited Mortgagee Liability. If a mortgagee or its designee becomes the tenant under the Lease or a new lease, the mortgagee or designee will be personally liable for the obligations of Tenant only for the period of time that it remains the actual beneficial holder of the leasehold. [§ 19.9] Notice of Arbitration, Condemnation Insurance. Landlord and Tenant will give all mortgagees notice of any arbitration, condemnation proceeding or pending adjustment of insurance claim, and any decision made in connection therewith. Mortgagee may, at its option, participate in such proceedings. [§ 19.12]
12.	**OTHER LEASE PROVISIONS**	
	Hazardous Materials [§4.4]	Tenant may not permit any Hazardous Materials (as defined in the Lease) to be used or stored on the Premises, excluding limited quantities for standard office and janitorial supplies and petroleum products in vehicles. Tenant must comply with all Environmental Laws (as defined in the Lease). Tenant must notify Landlord in writing if it becomes aware of any Hazardous Materials or any governmental inquiry or claim. Tenant must remediate any contamination resulting from Hazardous Materials brought onto the Premises by Tenant or its employees, agents, contractors or invitees, subject to Landlord's prior approval of the remedial action. [§4.4]

		Tenant indemnifies Landlord with respect to all losses arising out of or resulting from Hazardous Materials or violations of environmental law. [*Id.*]
	Books and Records [§6]	Tenant must keep full and complete books and records, and require its subtenants to do the same, all of which shall be made available to Landlord upon reasonable notice. [§6] Any deficiency in the payment of rent shall bear interest at the rate of 10% per annum. If the amount of the deficiency for any lease year exceeds 5% of the rent paid, Tenant must pay the cost of an audit, not to exceed $25,000. [*Id.*]
	Reporting Requirements	Within three (3) months of the end of each lease year, Tenant must deliver audited financial statements to Landlord. [§ 7] Tenant must inform Landlord by December 31st of each year of the names, addresses and number of share owned by each owner of stock in Tenant. [§ 20]
	Force Majeure	If the performance of an act required by the Lease is prevented or delayed for one of the following reasons, the time for performance of such act shall be extended for an equal time: act of God, strike, lockout, labor trouble, inability to secure materials, restrictive governmental laws or regulations, or any other cause (except financial inability). [§ 31.13]
	Surface Entry	Landlord represents that neither Landlord nor any entity claiming mineral rights through Landlord has any right of surface entry to the Premises except for maintenance and repair of oil production pipelines and equipment owned and operated by THUMS, Long Beach Company or any other company with which Landlord has a contractual agreement regarding the production of crude oil. [§ 31.16] ***[Note: We recommend confirming whether any such agreements are in effect today or could be entered into in the future, and which portion of the Premises may be affected.]***