



**City of Long Beach**  
*Working Together to Serve*

**Memorandum**

**Date:** November 22, 2017

**To:** Patrick H. West, City Manager *PH West*

**From:** John Keisler, Director of Economic Development *JK*

**For:** Mayor and Members of the City Council

**Subject:** Transient Occupancy Tax Incentive Program Update

On April 5, 2016, the City Council received a report from City staff on a proposed Transient Occupancy Tax (TOT) Incentive Program to attract hotel investment and development in the City of Long Beach. In that report, staff recommended a study be conducted to (a) provide an analysis of the local hotel market, (b) identify financial gaps that inhibit construction, and (c) identify incentive programs used by other cities to address those gaps. The purpose of this memo is to provide an update regarding that study.

In early 2017, the City engaged BAE Urban Economics, along with Maurice Robinson & Associates (MR&A) to prepare a Hotel Incentive Program Study (Study). The Study includes an overview of the hotel development environment, a financial feasibility analysis of hotel types proposed for Long Beach, a review of hotel incentive programs adopted in California since 2008, and a set of policy recommendations to stimulate new hotel construction in Long Beach. The Study, which is attached for your review, will be used as the framework for the development of an incentive program for economic development and investment in Long Beach.

Please contact me at (562) 570-5282 or [john.keisler@longbeach.gov](mailto:john.keisler@longbeach.gov) with any questions.

[C:\Users\JOKEISL\OD\ECONOMIC & PROPERTY DEVELOPMENT\RESOURCES\HOTEL INVESTMENT PROGRAM\TFF]

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# City of Long Beach, CA Hotel Incentive Program Study May 2017



# bae urban economics

May 9, 2017


Julissa Jose-Murray  
City of Long Beach  
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Long Beach, CA 90802

Dear Ms. Jose-Murray:

BAE Urban Economics, along with our subconsultant MR&A, is pleased to submit the attached Hotel Incentive Program Study as the second deliverable of our engagement to prepare a Hotel Incentive Analysis for the City of Long Beach. This revised draft incorporates earlier comments and suggestions received from City staff.

Please do not hesitate to contact me or Josh Rohmer, Vice President, with any questions at 213-471-2666, or [joshrohmer@bae1.com](mailto:joshrohmer@bae1.com).

Sincerely,



Sherry Rudnak, MA, LEED-AP



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# EXECUTIVE SUMMARY

BAE Urban Economics, with MR&A, has prepared this Hotel Incentive Program Study to provide the City of Long Beach with a summary of programs and policies that local jurisdictions can use to incentivize investment in hotel facilities. This Incentive Program Study is meant to provide the factual and analytical background for the City to explore opportunities for a program to incentivize private investment in hotel properties, in alignment with the City's economic development objectives. Building on the accompanying Hotel Market Demand Analysis, this Incentive Program Study includes the following elements:

- An **Overview of the hotel Development Environment**, a general discussion of national and local trends that impact the hotel industry, hotel development, and the potential for hotel development in California;
- A **Financial Feasibility Analysis**, which evaluates the feasibility of different types of hotels, guided by recent, planned, and expected hotel development projects in Long Beach. This analysis provides meaningful input regarding what types of hotels might need public financial support, and at what levels of subsidy;
- A **Hotel Incentive Analysis**, which provides an overview of the methods other statewide jurisdictions have used to incentive hotel developments, focusing on those cities that have adopted comprehensive hotel incentive programs, and including a summary of best practices; and
- Finally, a set of **Policy Recommendations**, designed to act as a framework of the elements of a hotel incentive program, including the consultant team's recommendations based on experience and knowledge of Long Beach's unique hotel market and development environment.

## Key Findings

### Current and Expected Demand for Hotel Rooms

As seen in the Market Study, given the current and projected levels of occupancy and room rates, demand for room night stays by 2020 could support development of an additional 759 hotel rooms while maintaining profitability in the existing hotels. If all currently planned hotel projects totaling 834 new rooms are built, this would result in a moderate over-supply in the near term. This over-supply is localized in the Airport submarket; sufficient demand exists in the Downtown submarket to absorb the planned projects.

In the long term, through 2040, demand growth is expected to generate demand for additional room nights sufficient to support 1,146 new hotel rooms in addition to the planned projects.

### Market Cycles and Hotel Development

According to most economic advisors, we are likely at or near the top of the current economic cycle. Locally, occupancy and room rates are at historically high levels. Combined with the currently low interest rates, the present time is a relatively attractive environment for hotel development, as reflected in numerous recent hotel proposals in Long Beach.

### Impact of Local Policies

Local policies such as requirements for union wages for hotel construction or operation have an impact on the feasibility of hotel development. Requirements for union operation, in particular, will make hotel development less profitable and widen the feasibility gap significantly. Upscale and select service hotels are most sensitive to the cost impacts of union operation, because labor costs in these facilities represent a larger portion of the operating budget. The increased costs of these local policies are sometimes mitigated with hotel incentives such as Transient Occupancy Tax (TOT) rebates.

### Feasibility of Upscale, Select Service Hotels

As demonstrated in the Feasibility Analysis and accompanying pro formas in Appendix A, the development of Upscale hotel facilities in the Downtown area is currently feasible. Feasibility of a similar Upscale hotel in the Airport area, however, is not projected to be feasible in the near term, largely because the recent and future increases in the supply of hotel rooms, which will have an impact on occupancy and nightly rates.

### Feasibility of Upper Upscale, Full Service Hotels

Upper Upscale hotels with a full complement of services are not financially feasible without subsidy. The high costs of constructing the appropriate level of improvements and amenities is not justified by the nightly rates that the market has proven willing to pay. Subsidy gaps for such hotel projects are estimated at around \$250,000 per room.

### Feasibility of Adaptive Reuse Hotels

The feasibility analysis for adaptive reuse hotel projects, based on actual opportunities in downtown Long Beach, indicates that reuse of buildings that are already configured for residential or hospitality use can be feasible. Although every adaptive reuse project is unique, the reuse of other types of buildings, such as office, can prove costly enough to make those projects slightly less than feasible.

### Best Practices for Incentive Programs

Many cities in the state have provided incentivized hotel development, using methods including land-write downs, sub-market ground leases of public land, redevelopment tax increment, and TOT rebates. Presently, TOT rebates are the most commonly use incentive, and several jurisdictions have adopted TOT-based hotel incentive programs. Among the hotel

incentive programs that have been adopted by various municipalities around the state, there are several common elements and best practices for consideration, as described in this study.

#### *Policy Recommendations*

This study concludes that TOT rebates should be made available to encourage the development of new rooms in the City, especially in the Downtown and Waterfront area. Table ES-1 summarizes the key elements of a Hotel Incentive Program, including the consultant team's recommendations based on the findings of the Hotel Market Demand Analysis and this study.



**Table ES-1: Hotel Incentive Program Elements and Recommendations**

| <b>Element</b>                 | <b>Description</b>  | <b>Recommendation</b>  |
|--------------------------------|---|--|
| <b>Project Eligibility</b>     |   |  |
| Location                       | Geographic boundaries within which TOT rebates are allowable                                | Downtown and waterfront  |
| Level of Service               | Identify the preferred rating system and level of service for eligible hotels               | Full-service hotels at AAA three-diamond level or above. Select-service considered for historic rehab projects.  |
| Size                           | Participating hotels must have a certain number of rooms.                                   | No size threshold is recommended   |
| Amenities                      | Uses required on the property in addition to guest rooms.                                   | Hotels near Convention Center include meeting space of at least 5,000 SF, with 10,000 SF preferred   |
| New or Existing                | In addition to new hotels, are hotel expansions or renovations eligible?                    | Existing hotels undergoing renovation to add rooms or facilities or to significantly improve level of service are eligible for TOT increment rebates. Periodic refreshes of FF&E to meet brand standards do not qualify. |
| <b>Rebate Terms</b>            |   |  |
| % of TOT                       | Amount of total TOT eligible for rebate   | Generally 50% of incremental TOT over the rebate term; percentage can start higher and be staggered downwards over time  |
| Duration of Rebate             | How long hotels can receive TOT rebates   | Generally 20 to 30 years, with exceptions  |
| Cap on rebate amount           | Total amount of TOT that can be rebated   | Up to a limit of the estimated Feasibility Gap   |
| Program versus Project         | Rebate terms applied program-wide, or set for each individual project                       | Program-wide rebate terms  |
| <b>Administrative</b>          |   |  |
| Funding for City Analysis      | How to cover City costs for reviewing applications  | Developer funds City's third-party analysis  |
| Periodic Review                | Established time period after which City staff will review program outcomes                 | Program to be reviewed with respect to outcomes and market conditions every three years.   |
| Sunset                         | Program to expire on a date certain, or when a certain number of new hotel rooms are built. | Program requires review and reauthorization upon the sooner of: 5 years after adoption, or construction of a number of hotel rooms equivalent to the projected demand  |
| <b>Implementing Instrument</b> | Contracts or legal documents documenting requirements for City and Applicant                | Operating covenant recorded on title, requiring maintenance of service level and brand for at least the duration of rebates  |
| <b>Room Block Agreement</b>    | Hotel operator will provide blocks of future rooms for CVB-organized events                 | At least 50% room block, under program-wide terms developed in consultation with CVB   |
| <b>Design Guidelines</b>       | Design requirements for participating hotels  | Especially in highly visible locations near the Convention Center and waterfront, adopt design guidelines so that participating hotels enhance the public realm and the visitor experience, especially at ground level   |



# INTRODUCTION

## Purpose of the Hotel Incentive Program Study

In April 2016, the Long Beach Mayor and City Council requested that City staff prepare a study to evaluate the potential use of Transient Occupancy Tax (TOT) rebates to incentivize the development of new and/or renovated hotel facilities. The City engaged BAE Urban Economics (BAE), working with Maurice Robinson and Associates (MR&A), to prepare this study, with the intent of providing elected officials and City staff with sufficient information and analysis to develop a Hotel Incentive Program that is fair, financially prudent, and in alignment with the City's economic development goals.

This study is grounded on a comprehensive Market Analysis of the hospitality industry in Long Beach. The Market Analysis, prepared concurrently with this Incentive Program Study by BAE Urban Economics and MR&A, used data from Smith Travel Research (STR) to present a description of the inventory of hotel facilities organized by quality level and geographic submarkets. The Market Analysis also measured current demand for additional hotel rooms, and projected future demand through 2040, based on projected growth in various sources of hotel room demand including business, leisure, group, and other travel. Interviews with hotel managers and other stakeholders in Long Beach were invaluable in preparing the Market Study and understanding the trends and dynamics of the local hotel industry.

### *Key Findings from the Hotel Market Study*

#### Current interest in additional hotel development

With Citywide occupancy levels above 75 percent and room rates that have increased over 23 percent since 2010, hotel developers are showing interest in building new hotel projects in the City. This is evident in the Airport area, where several hotels are currently under construction or in the entitlement process, and in the Downtown area, where several hotels have been proposed.

#### Convergence of Upper Upscale and Upscale properties<sup>1</sup>

The average room rate for a hotel room in an Upper Upscale hotel (including the nicest and most expensive properties in the City), is only marginally higher than the rate for a room in the next lower Market Class property (Upscale hotels). This suggests that visitors have a ceiling in

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<sup>1</sup> Per STR categories, Upper Upscale hotel properties have average room rates in the top 67 to 82 percent of the regional market. Upscale properties have average room rates between 51 and 66 percent of the regional market rates.

the amount they are willing to pay for a room night in this market's current inventory of hotel rooms, even for the nicest hotel properties.

#### Sources of Demand for Room Night Stays

Business travel is the biggest source of demand for room night stays, and is expected to generate more demand over time, as office and especially office/industrial park development continues to bring jobs and economic activity to the City. Group travel is another key source of room night stays, although one that is not expected to increase significantly in the absence of major investments in additional meeting facilities. Finally, Leisure travel generates demand for room night stays, and is expected to increase as a demand source as Long Beach continues to evolve as a destination with a mixed-use downtown.

#### Demand for New Hotel Facilities

Given the current and projected levels of occupancy and room rates, demand for room night stays by 2020 could support the development of an additional 759 hotel rooms while maintaining profitability in the existing hotels. If all planned hotel projects totaling 834 new rooms are built, this would result in a moderate over-supply in the near term. This over-supply is localized in the Airport submarket; sufficient demand exists in the Downtown submarket to absorb the planned projects.

In the long term, through 2040, room night demand growth is expected to be sufficient to support 1,146 new hotel rooms, in addition to the planned projects.

## **Methodology**

For the current Hotel Incentive Program Study, the consultant team synthesized multiple sources of information to assemble a comprehensive review of local jurisdictions' opportunities to incentivize the development of hotels. This review includes an overview of the key factors that influence hotel investment. MR&A, in particular, brings to this study an extensive track record of working with public agencies to negotiate and realize quality hotel projects, and that experience is incorporated into this overview of the environment for hotel development.

Additionally, the consultant team conducted an extensive literature review of staff reports and ordinances for other California jurisdictions that have adopted incentive policies, to present a full range of the hotel incentives that have been implemented around the state. This study goes on to analyze common elements and best practices among other adopted incentive programs.

This study distinguishes between individual incentivized hotel projects and adopted hotel incentive programs. Although numerous jurisdictions across the state have used variety of

methods to incentivize individual hotel projects, only a few have established formal incentive programs. The adoption of a formal program provides additional benefits. First, it clarifies project eligibility and sets levels of potential TOT rebate, reducing uncertainty for prospective hotel developers and supporting municipal efforts to reach out to the development community. Second, an established program streamlines the often onerous and complex process of reviewing and negotiating individual incentive deals. Finally, an adopted program can define the financial parameters and set boundaries for subsidies in a transparent, equitable way that is fiscally responsible.

The hotel development pro forma analysis is included here to evaluate the feasibility of various types of hotel development within the dynamics of Long Beach's local market conditions. Pro forma models evaluate development, financing, and operating costs for hotel facilities as well as projected revenues to determine whether the various hotel prototypes are financially feasible to develop, as reflected in their implied residual land values.

## **Organization of the Report**

This report is arranged into discrete sections that cover the overall environment for hotel development in Long Beach; an analysis of the feasibility of developing specific types of hotel facilities in this market; and methods of and best practices in public efforts to incentivize hotel development. The report concludes with the consultant team's recommendations to be considered to achieve Long Beach's goals for tourism, economic development, and fiscal stewardship.

# OVERVIEW OF HOTEL DEVELOPMENT ENVIRONMENT

This section of the report provides a general discussion of national and local trends that impact the hotel industry, hotel development, and the potential for hotel development in California.

## ***Capital markets***

Most economic advisors indicate that the economic cycle is currently at or near its peak. Accordingly, hotel occupancies and room rates are at their highest point both locally and nationally. This makes new hotel development relatively more desirable and financially feasible, as the City of Long Beach is experiencing with the recent interest in hotel development proposals. Although the timing is unpredictable, it is reasonable to expect that the next recession will occur within the next few years. The current transition to a new federal administration further adds to the uncertainty.

Because the availability of financing closely follows the economic cycle, the present is a relatively good time to obtain construction debt, at about 6 percent to 7 percent interest rate for 50 percent to 60 percent of cost. This debt will be relatively less available at other points of the cycle, such as during an upcoming downturn, in the trough, or at the early recovery stages.

## ***Labor Costs: Hotel Construction***

In the State of California, any development that is considered a public works project or which receives public funding must pay prevailing wages to all craft trade workers during construction. Prevailing wage requirements are usually based on rates specified in collective bargaining agreements, and establish minimum rates for hourly wages, benefits and overtime, and can be expected to increase the development budget by about 10 to 15 percent of the total construction cost, compared to a hotel built without prevailing wages. Most larger hotel developments in California are constructed with prevailing wage labor, both because these larger projects are more complex to build and require more skilled craftspeople who command prevailing wage rates, and also because many of the larger hotels have received public subsidies that impose prevailing wage requirements.

Some hotel projects that benefit from public incentives are required to enter into Project Labor Agreements (PLAs) – collective bargaining agreements with the various construction trades that establish the conditions of employment for the publicly-funded development. In addition to requiring prevailing wage rates, a PLA also generally includes provisions for local hiring and union hiring. Beyond the prevailing wage costs, the additional costs and benefits of PLAs are difficult to quantify and are not included in this analysis. Several of the cities that have adopted Hotel Incentive Programs require payment of prevailing wages, and one, Los Angeles, requires PLAs for participating hotel developments.

### ***Labor Costs: Hotel Operation***

Once a hotel is developed, it can be operated with either union labor or with a non-unionized workforce. Labor supporters advocate for union operation to ensure that hotel workers have safe working conditions, improved job security, and the right to negotiate fair levels of pay and benefits such as holiday/leave, medical insurance, and retirement. The workforce in a unionized hotel generally has an improved pay scale, more positions, and more workers with more experience. Generally, large, full-service Upper Upscale hotels in urban areas are often union-operated; smaller, limited-service hotels at the Upscale class level or below are rarely union-operated. Currently, two of the Upper Upscale hotels in Long Beach are union-operated—the Hyatt Regency Long Beach at the Convention Center and the Hyatt Centric at the Pike. Three of the four other Upper Upscale hotels—the Hilton, Renaissance, and Westin—have been the subject of labor disputes. Only one of the Upscale hotels is union—the Doubletree Hotel Maya. None of the other 50+ hotels in the City are union-operated.

Operating with a unionized workforce has cost implications that impact the feasibility of hotel developments. If hotels are required to operate with unionized labor, or obliged to honor a card-check or majority sign-up policy that increases the likelihood of union operation, then annual operating expenses would be expected to increase by approximately 12 to 18 percent over comparable non-unionized hotels. Because this impacts annual net operating income, and therefore the capitalized value of the hotel, the “gap” between project feasibility and unfeasibility widens significantly with union operation. Upscale and select service hotel facilities are more sensitive to the cost impacts of union operation because labor costs represent a larger portion of the operating budget. Cities that desire to support pro-labor policies sometimes use TOT rebates to help fill the larger gap created by the policy of union operation. Although some specific hotel incentive packages reviewed for this study have required union operation, no other city with an adopted hotel incentive program requires union operation for all participating hotels.

### ***Minimum Wage Statutes***

In November 2012, voters in the City adopted Measure N, an initiative ordinance establishing a minimum rate of compensation and sick days to be paid to hotel workers. As of July 1, 2016, that hourly wage is set at \$14.07. Generally, this increase in the operating costs for hotels could be expected to negatively impact profitability and depress interest in new hotel development, relative to locations in other area jurisdictions that are subject only to the state minimum wage of \$10.50 per hour for employers with more than 25 employees. However, this shift to higher pay for Long Beach hotel workers is quite recent, and the impacts are not clear. Importantly, the City of Los Angeles also adopted a higher minimum wage of \$15.37 for hotel workers, with similarly unclear outcomes for hotel operations and hotel development. Such local minimum wage laws will decrease in significance over time as the state minimum wage climbs to the scheduled \$15 per hour by 2022.



### ***Regulatory issues***

The California Coastal Commission has a mandate to provide low-cost lodging in the Coastal Zone, so any new hotels with room rates priced above its low-cost threshold (about \$100 to \$130) must contribute to a mitigation fund. This fee varies (\$7,500 to \$16,000 per room), but is usually less than 5 percent of the total development cost. Alternatively, hotel developers can choose to provide a portion of their new rooms at low-cost rates, although virtually none do.

Given the City's interest in encouraging the development of new hotel rooms, no major local regulatory impediments appear to exist.

### ***Local demand generators***

The Market Analysis describes the various sources of demand for hotel room nights in Long Beach, based on interviews with local hotel managers and information from the Convention and Visitors Bureau. Generally, Business demand from visitors doing business locally accounts for 45 to 50 percent of hotel room night stays. Group travel, which includes conventions, conferences, trade shows and exhibitions, as well as corporate/ business meetings booked "on-site" at a hotel, accounts for 30 to 35 percent of annual hotel room nights. Group travel includes travelers booked through the Convention Center, which accounts for approximately 15 percent of all room nights. Finally, Leisure travelers including tourists represent another major source of demand, estimated at approximately 20 percent of all room night stays.

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**Table 1: Hotel Demand Market Segments, 2016**

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|                | <u>Convention</u> | <u>Business</u> | <u>Leisure</u> | <u>Other<br/>(inc. Groups)</u> |
|----------------|-------------------|-----------------|----------------|--------------------------------|
| Market Segment | 15%               | 45%             | 20%            | 20%                            |

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Sources: CVB and Hotel Interviews, 2016; BAE, 2016

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The Market Analysis projects future growth in demand for hotel room nights using projected changes in the various demand sources, based on recent trends and planned and proposed investments. In sum, the Market Analysis anticipates modest growth in demand from all segments of the travel market, resulting in projected future demand for hotel room nights sufficient to support 1,146 new hotel rooms through 2040.

Although the Group/Convention Center segment is identified as a moderate source of growth in demand, the Convention Center remains a primary single driver of room nights, especially in the Downtown and Waterfront submarket. The Convention Center and Visitors Bureau (CVB) has implemented innovative improvements at the facility over the last several years, with a strategy of providing unique, "turn-key" facilities that expand the range of potential users and capitalizing on the Southern California, seaside location to operate as a best-in-class facility. While the currently high Average Daily Rates for hotels rooms are a profitable boon for hotel operators, CVB finds that operators of hotels near the Convention Center are less amenable to

providing large blocks of discounted rooms for Convention Center attendees. Accordingly, CVB has expressed interest in entering into room block agreements to contract with hotels to reserve in advance a portion of future hotel rooms (50 percent or more) for Convention Center attendees. Room block agreements have been incorporated into other city Hotel Incentive Programs for hotels near convention centers, such as in Palm Springs and Los Angeles.

# FINANCIAL FEASIBILITY ANALYSIS

To evaluate the feasibility of different types of hotel product and identify feasibility thresholds, the consultant team prepared pro forma development models for four prototypical new construction hotel developments. The prototypes were selected in consultation with City of Long Beach staff, and informed by the types of recent hotel developments proposed, permitted, or constructed in Long Beach. The prototype feasibility studies are based on real-world projects, and meant to be broadly representative of the types of hotel projects likely to be proposed in the future.

New construction hotel prototypes include:

- Upscale hotel, Queen Mary site in the Downtown and Waterfront submarket
- Upscale hotel, Airport submarket
- Upper Upscale hotel, mixed-use Civic Center site in the Downtown and Waterfront Submarket
- Upper Upscale hotel, stand-alone Civic Center site in the Downtown and Waterfront Submarket

In addition to the four prototypical hotel projects, the consultant team also prepared feasibility analyses for two potential adaptive re-use hotel projects in downtown Long Beach. These pro forma analyses are more specific to the particular sites and projects, and are therefore less representative of other hotel projects.

Adaptive reuse hotel projects in the Downtown submarket include:

- Upscale full service hotel, Breakers property at 210 E Ocean Boulevard
- Upscale select service hotel, 235 E Broadway

Pro formas for each of the four prototypes and two adaptive re-use projects are included in Appendix A.

## Pro Forma Analysis

The pro forma developed for each prototype and re-use project uses an Excel workbook to show the development program and assumptions for development costs and operating revenues and expenditures. The pro forma then calculates the total development cost, as well as projected operating results when the hotel is built and achieves stabilized operations. The resulting Net Operating Income (NOI) is calculated, and a capitalization rate applied to determine the value of the completed project. Finally, the total development cost is subtracted

from the value of the finished project to identify how much value remains to pay for land (residual land value).

A project is considered “feasible” when the pro forma shows that the residual land value (RLV) corresponds to current market values for development sites with similar characteristics and zoning. When the pro forma shows that a project cannot pay market value for land, or, worse, is worth less than the cost of development, it is considered to have a “feasibility gap” and be infeasible, meaning it is unlikely to be built by a developer who is expected to invest equity and obtain financing. In circumstances where city goals support the construction of a development that is not feasible, cities sometimes provide financial assistance in various forms for targeted projects to address any feasibility gaps.

### ***Cost Assumptions***

Construction cost assumptions were developed from a number of sources, including RS Means *Square Foot Construction Costs 2015*, a resource used by architects and contractors, as well as Cushman & Wakefield's 2016 Hotel Construction Cost data. The *HVS Hotel Development Cost Survey 2015-16* was primarily used to estimate hard shell costs, as well as project costs for Furniture, Fixtures, and Equipment (FF&E), Developer Fees, and Soft Costs on a per-key basis.

The model also assumes that prevailing construction wages would be included as part of any new hotel development that is potentially eligible for a TOT rebate or other public subsidy, thus adding approximately 15 percent to the total development budget for Hard Costs.<sup>2</sup> As mentioned previously, prevailing wage rates are typically used to construct larger hotel properties. Because most hotels in California are not operated by unionized employees, the pro forma analyses assume that operation will be non-union. A separate analysis is provided to estimate the cost impacts of unionized operation.

Impact fees were calculated based on the Annual and Five Year Reports for Citywide Fees published for the City of Long Beach in 2016, and include inputs for the City Transportation Improvement Fee, as well as per-square foot fees for the Parks and Recreation, Police, and Fire Departments, as well as the Long Beach School District. Financing costs are based on current market rates. Capitalization rate estimates were developed based upon a survey of multiple data sources for current hotel projects in Southern California, generally ranging from 6.50 percent for Upper Upscale properties to 7.25 percent for Upscale properties.

### ***Revenue Assumptions***

Operating revenue and expense ratio assumptions were obtained from 2016 STR HOST Reports, which provide confidential hotel operating statements that publish information by

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<sup>2</sup> <http://caeconomy.org/reporting/entry/californias-housing-crisis-construction-labor-the-costs-of-multi-family-hou?>

department, including rooms, food and beverage, marketing, utility costs, franchise fees, administrative, and other charges. Total U.S. Ratio to Sales in the categories of both Upscale and Upper Upscale classes provided the primary foundation for analysis.

To estimate operating costs, the consultant team obtained reports on financial performance metrics for hotels that correspond to the Long beach hotel prototypes, ranging from an unbranded, Upscale, select-service hotel to a branded, Upper Upscale, Full-Service hotel. Proformas of Upscale and Upper Upscale hotels with and without Union labor were obtained from several hotel developers, in an effort to gauge the extent to which a Union labor agreement might impact operating expenses, and therefore overall feasibility.

For some prototypes like the Queen Mary-adjacent hotel and adaptive re-use properties, revenue and expense ratios were estimated based on a hybrid approach that accounts for the likely development program and the footprints dedicated to each use within the hotel (e.g., the size of restaurant and/or meeting space). These operating ratios were then applied to 2016 top-line market performance data obtained from STR for Upscale and Upper Upscale hotels in the City of Long Beach. The resulting NOI was calculated to determine the value of the completed project.

## **New Construction Prototypes**

The feasibility analysis for each hotel is based on a development program that describes the type of facility that will be built, including the overall size and type of construction, parking facilities, and other uses beyond hotel rooms. The development programs here, summarized in Table 2, are informed by the consultant team's estimation of the likely hotel typologies that would be developed to satisfy different levels of services in different locations, and correspond to hotel projects that have been recently constructed or proposed.

### ***Upscale Queen Mary-adjacent Development Program***

The Upscale prototype modeled for a potential Queen Mary-adjacent hotel comprises 150 rooms set across approximately 3.5 acres. This represents a slightly larger footprint than the City's most recently-built hotel (a 2.8-acre Courtyard by Marriott Douglas Park in 2013) to take advantage of the waterfront setting. Possible brands in this chain scale category not currently represented in Long Beach include Indigo, aloft, Hyatt Place, and element.

While the "Select-Service" hotel would not include a three-meal restaurant, it does contain a bar/lounge with water views and some limited food service, totaling approximately 1,500 square feet. In keeping with the select-service model, a relatively small amount of meeting and event space is assumed, not exceeding 2,000 square feet. Parking standards are governed by the Queensway Bay Planned Development Plan and require approximately 168 surface parking spaces.



The analysis assumes that this hotel would come online in mid-2019, achieving a stabilized occupancy rate of approximately 70 percent in the year 2021. While this is slightly lower than the current Citywide occupancy rate of 75.7 percent, it does reflect the impact of a significant supply increase (up to 834 rooms, *not* including any prototypes) in the City's development pipeline through 2020. This is expected to lower Citywide occupancy rates in the mid-term as new supply becomes absorbed (see Table 28 of the accompanying Hotel Market Demand Analysis for TOT Projections).

Average Daily Rates (ADRs) in the Downtown and Waterfront submarket were \$158 in 2015. Assuming a 2.5 percent annual growth rate through 2021, as well as a weighted average fair share rate of 115 percent given its new facilities and premium waterfront location, BAE has projected a \$211 ADR for this property, with a Revenue Per Available Room (RevPAR)<sup>3</sup> of approximately \$148.

#### ***Upscale Airport Development Program***

The second Upscale, select-service prototype modeled by BAE is located in the Long Beach Airport submarket. Like the Upscale Queen Mary-adjacent prototype, this development would comprise 150 rooms, but set across a smaller footprint of 2.5 acres.

Because the Airport submarket is already anticipating a substantial increase in supply with the addition of the 241-room Hampton Inn and 125-room Staybridge Suites, the development program for this prototype is very modest. The hotel would not include a restaurant or lounge, and meeting space would comprise a small footprint of approximately 500 square feet. Parking standards would conform to Municipal Code, requiring approximately 160 spaces to be paved at surface level. Possible brands in this chain scale category not currently represented in Long Beach include Hilton Garden Inn, Springhill Suites, and AC by Marriott.

BAE has projected that this hotel would come online in mid-2019, achieving a stabilized occupancy rate of approximately 70 percent in the year 2021. Not only is this rate slightly lower than the current Citywide occupancy rate of 75.7 percent, it also reflects the significant supply increase in the Airport submarket's development pipeline through 2020.

ADRs in the Airport submarket were \$136 in 2015. Assuming a 2.5 percent annual growth rate through 2021, as well as a weighted average fair share rate of 110 percent given the new facilities, the analysis uses an ADR of \$173 for this property, with a RevPAR of approximately \$121.

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<sup>3</sup> RevPAR combines the ADR with the hotel occupancy rate to estimate the revenue per available room.

***Upper-Upscale Long Beach Civic Center Development Program, Mixed-Use***

The Upper-Upscale prototype would comprise 200 rooms as part of a mixed-use residential tower on the 2.33-acre Ocean Boulevard parcel of the Long Beach Civic Center site, similar to the one proposed in Plenary Edgemoor Civic Partner's (PECP) Civic Center Master Plan. Because this hotel would be realized as part of a larger, mixed-use project, the analysis isolates only those construction costs that would be associated with the hotel use. This enables the model to be scalable depending on the ultimate configuration of the development program.

The total building area entitled as part of PECP's development program for the Ocean Boulevard parcel is 528,700 square feet. Assuming a net guest room size of 425 square feet, allotting 25 percent of net room area to Back of House/Circulation as well as 15 percent to walls and shafts, the Hotel portion of this development would comprise 119,000 square feet, or approximately 25 percent of the total tower.

As is customary with Upper Upscale properties, there would be a significant amount of space dedicated to both meeting and events capacity (8,000 square feet total) as well as an on-site restaurant serving three meals per day and room service (2,400 square feet). Parking standards would conform to the City of Long Beach Downtown Plan, which requires 0.5 spaces per guest room and one space per 1,000 square feet of restaurant and/or meeting space use. The 110 required parking spaces would be built underground at a preliminary cost of \$55,000 per stall.

Because construction on the private development component of the Civic Center will not commence until the new City Hall has been completed and occupied (currently estimated for 2019), the analysis anticipates that this hotel would not come on-line and achieve stabilized occupancy until 2023, a lengthy time horizon for forecasting Occupancy and ADR.

Nonetheless, assuming a 2.5 percent annual growth rate through 2023, as well as a weighted average "fair share" rate of 120 percent given the new facility and Upper Upscale status, this analysis uses a \$241 ADR and 75 percent stabilized occupancy for this property, with a RevPAR of approximately \$181. Possible brands in this chain scale category not currently represented in Long Beach include Embassy Suites, Omni and Sheraton.

***Upper-Upscale Long Beach Civic Center Development Program, Stand-alone Hotel***

The analysis also evaluates the development of an Upper Upscale facility to be built on a portion of the 2.33-acre Civic Center property to be disposed of for private development in the PECP plan. This model presumes that the hotel will not be developed as a part of a larger, mixed-use project, but rather as a separate, stand-alone property.

Because the hotel would presumably be expected to share the 2.33-acre Ocean Boulevard parcel with other uses that might not require a subsidy (e.g., commercial and/or residential),

the development program has been reduced to comprise approximately one-third, or 33,766 square feet, of the total Ocean Boulevard parcel. This would yield a mid-rise structure with a total building size of 81,775 square feet, including 125 total rooms, a 2,400 square foot restaurant, and 5,000 square feet of meeting space. Possible brands in this chain scale category not currently represented in Long Beach include Joie de Vivre, Ace and Le Meridien.

In addition to its lower-rise construction type, this hotel's hard construction cost would benefit from the inclusion of structured, as opposed to underground, parking. The 70 required parking spaces would be built in an onsite structured podium at a preliminary cost of \$25,000 per stall. However, this hotel would command a slightly lower ADR for the standalone mid-rise than a mixed-use high-rise (\$221 ADR vs \$241 ADR) due to the decreased likelihood of waterfront views relative to the high-rise.

**Table 2: New Prototype Development Programs**

|                                   | <b>Upscale<br/>Queen Mary site</b> | <b>Upscale<br/>Airport site</b> | <b>Upper Upscale<br/>Civic Center site<br/>(Mixed Use)</b> | <b>Upper Upscale<br/>Civic Center site<br/>(Standalone)</b> |
|-----------------------------------|------------------------------------|---------------------------------|--|---|
| <b>Project Characteristics</b>    |                                    |                                 |  |   |
| Site area (acres)                 | 3.50                               | 2.50                            | 2.33   | 0.77  |
| Site area (sq. ft.)               | 152,460                            | 108,900                         | 101,300  | 33,429  |
| <b>Building</b>                   |                                    |                                 |  |   |
| Type                              | Mid-Rise                           | Mid-Rise                        | High-Rise  | Mid-Rise  |
| Hotel Rooms (#)                   | 150                                | 150                             | 200  | 125   |
| Avg/ room size, net (sq. ft.)     | 375                                | 375                             | 425  | 425   |
| Hotel Use (gross sq. ft.)         | 78,750                             | 78,750                          | 119,000  | 74,375  |
| Restaurant (gross sq. ft.)        | 1,500                              | N/A                             | 2,400  | 2,400   |
| Meeting and Event (gross sq. ft.) | 2,000                              | 500                             | 8,000  | 5,000   |
| Building gross sq. ft. (gsf)      | 82,250                             | 79,250                          | 129,400  | 81,775  |
| <b>Parking</b>                    |                                    |                                 |  |   |
| Required New Spaces               | 168                                | 160                             | 110  | 70  |
| Type                              | Surface                            | Surface                         | Underground  | Structured  |

## Feasibility Findings for New Construction Prototypes

Of the four new development prototypes analyzed, the Queen Mary-adjacent hotel site is the only model to yield a positive residual land value (Table 3).

**Table 3: Feasibility Findings for New Construction Prototypes**

|                                       | Upscale<br>Queen Mary site | Upscale<br>Airport site | Upper Upscale<br>Civic Center site<br>(Mixed Use) | Upper Upscale<br>Civic Center site<br>(Standalone) |
|---------------------------------------|----------------------------|-------------------------|---|--|
| <b>Project Characteristics</b>        |                            |                         |   |  |
| Site area (acres)                     | 3.50                       | 2.50                    | 2.33  | 0.77   |
| Site area (sq. ft.)                   | 152,460                    | 108,900                 | 101,300   | 33,429   |
| <b>Building</b>                       |                            |                         |   |  |
| Type                                  | Mid-Rise                   | Mid-Rise                | High-Rise   | Mid-Rise   |
| Hotel Rooms (#)                       | 150                        | 150                     | 200   | 125  |
| Avg/ room size, net (sq. ft.)         | 375                        | 375                     | 425   | 425  |
| Hotel Use (gross sq. ft.)             | 78,750                     | 78,750                  | 119,000   | 74,375   |
| Restaurant (gross sq. ft.)            | 1,500                      | N/A                     | 2,400   | 2,400  |
| Meeting and Event (gross sq. ft.)     | 2,000                      | 500                     | 8,000   | 5,000  |
| Building gross sq. ft. (gsf)          | 82,250                     | 79,250                  | 129,400   | 81,775   |
| <b>Parking</b>                        |                            |                         |   |  |
| Required New Spaces                   | 168                        | 160                     | 110   | 70   |
| Type                                  | Surface                    | Surface                 | Underground                                       | Structured   |
| <b>Revenue Assumptions</b>            |                            |                         |   |  |
| Rooms (% total revenue)               | 83.7%                      | 91.0%                   | 64.0%   | 64.0%  |
| F&B (% total revenue)                 | 13.4%                      | 6.1%                    | 29.5%   | 29.5%  |
| <b>Expense Assumptions</b>            |                            |                         |   |  |
| Departmental (% rev)                  | 31.1%                      | 27.2%                   | 39.2%   | 39.2%  |
| Undistributed Expenses (% revenue)    | 26.5%                      | 26.5%                   | 23.3%   | 23.3%  |
| <b>Net Operating Income</b>           | <b>\$2,882,504</b>         | <b>\$2,393,537</b>      | <b>\$4,652,500</b>                                | <b>\$2,635,990</b>                                 |
| <b>Occupancy Assumptions</b>          |                            |                         |   |  |
| Year Stabilized                       | 2021                       | 2021                    | 2023  | 2023   |
| Target Occupancy                      | 70%                        | 70%                     | 75%   | 75%  |
| Target ADR                            | \$211                      | \$173                   | \$241   | \$221  |
| <b>Costs</b>                          |                            |                         |   |  |
| Hard Costs per Key                    | \$159,704                  | \$150,630               | \$337,226   | \$321,969  |
| Soft Costs per Key                    | \$33,387                   | \$31,546                | \$69,016  | \$65,974   |
| FF&E, per Key                         | \$26,546                   | \$22,494                | \$61,915  | \$59,114   |
| FF&E, % Total Development Costs       | 11%                        | 10%                     | 12%   | 12%  |
| Total Development Costs               | \$36,177,382               | \$33,712,310            | \$102,816,719                                     | \$61,364,159                                       |
| <b>Cost per Key (excluding Land)</b>  | <b>\$241,183</b>           | <b>\$224,749</b>        | <b>\$514,084</b>                                  | <b>\$490,913</b>                                   |
| <b>Financing/Feasibility</b>          |                            |                         |   |  |
| Exit Cap Rate                         | 7.00%                      | 7.25%                   | 6.50%   | 6.50%  |
| Residual Land Value (RLV)             | \$5,001,245                | (\$698,005)             | (\$31,239,799)                                    | (\$20,810,471)                                     |
| RLV per Key                           | \$33,342                   | (\$4,653)               | (\$156,199)                                       | (\$166,484)  |
| Land Cost est per Key                 | (\$30,000)                 | (\$30,000)              | (\$90,000)  | (\$90,000)   |
| Feasibility Surplus/Gap per Room      | \$3,342                    | (\$34,653)              | (\$246,199)                                       | (\$256,484)  |
| Total Surplus/Feasibility Gap         | \$501,245                  | (\$5,198,005)           | (\$49,239,799)                                    | (\$32,060,471)                                     |
| <b>Estimated Annual City Revenues</b> |                            |                         |   |  |
| Transient Occupancy Tax (12%)         | \$969,084                  | \$797,881               | \$1,584,972                                       | \$908,057  |
| Property Tax (City Share - 21.66%)    | \$89,193                   | \$71,509                | \$155,036   | \$87,839   |
| Sales Tax (Measure A not inc.)        | \$25,858                   | \$8,914                 | \$121,723   | \$69,737   |

Sources: STR, 2016; HVS, 2015-16; Cushman &amp; Wakefield 2016; BAE, 2017.

#### ***Upscale Queen Mary-adjacent site***

Generating an NOI of \$2.88 million and assuming an exit capitalization rate of seven percent, the Queen Mary-adjacent hotel development would support a residual land value of approximately \$5 million, or \$33,342 per room (Table 3). This is roughly in line with other hotel land comps in Southern California over the past decade, that have averaged approximately \$29,000 per room for Upscale properties. The Courtyard Marriott site at the Long Beach airport, for example, traded for \$4,188,500 in 2012, representing a per-room land cost of approximately \$28,000.

#### ***Upscale Airport site***

Generating an NOI of \$2.39 million and assuming a slightly more conservative cap rate of 7.25 percent, this hotel development as currently configured would yield a negative residual land value of approximately \$698,005, or negative \$4,653 per room. A negative land value occurs when the stabilized value of the property is less than the cost of construction. While using a similar construction type as the Queen Mary property and therefore similar in hard shell costs, the Upscale Airport hotel prototype would debut in an already oversupplied Airport submarket, with 366 rooms already in the current development pipeline. This, coupled with the lack of waterfront location, lowers the potential ADR and reduces overall feasibility compared to the previous Upscale prototype. The combination of lower ADRs and similar construction costs results in an infeasible project.

#### ***Upper Upscale Long Beach Civic Center site, Mixed-Use***

The hotel portion of this mixed-use tower at the Long Beach Civic Center site would yield a negative residual land value of \$31 million, or approximately \$156,199 per room. This assumes a potential NOI of \$4.65 million and an exit capitalization rate of 6.5 percent. The draw of a new Upper Upscale property in the strong Downtown submarket would command a higher stabilized occupancy rate (75 percent versus 70 percent for Upscale properties) in addition to higher ADRs. However, the premium associated with this type of high-rise hard cost construction (\$250,000 per key versus \$117,600 per key for Upscale properties), in addition to the cost of subterranean parking (\$6,072,000 for its share of parking demand) impacts the feasibility of this model considerably.

Interviews with hotel development analysts indicate that the per-room land cost for this type of Upper Upscale high-rise hotel development in coastal regions can approach \$90,000 per room. Therefore, the subsidy gap in this case could be estimated at approximately \$246,199 per room, or \$49.2 million in total.

#### ***Upper Upscale Long Beach Civic Center site, Stand-alone***

The "stand-alone" version of the Upper Upscale hotel at the Civic Center site would fare similarly to the mixed-use tower in this feasibility model. With the same operating expense



ratios as the mixed-use property and a potential NOI of \$2.67 million, this property would yield a negative residual land value of \$20.8 million, or \$166,484 per room. Given the estimated per-land room cost threshold mentioned above, the overall subsidy gap could be estimated at approximately \$32 million.

## **Adaptive Re-use Projects**

### ***The Breakers Development Program***

Located at 210 E Ocean Blvd, the historic Breakers property occupies a prime location in Downtown Long Beach, with many original Art Deco-style features and a currently functioning rooftop restaurant. Originally built as a hotel in 1926, the site has seen many uses over the years, most recently serving as a facility for senior housing until shutting down in 2015.

The hotel prototype does not reference any existing development program, but instead assigns uses to the hotel that generally correspond to the existing footprint. This includes approximately 243 hotel rooms, as noted on the Los Angeles County Office of the Assessor's website, as well as up to 11,000 square feet of combined restaurant and meeting space, currently occupied by the Sky Room and Empire Grand Ballroom on the upper floor.

There are several important features on this property that impact hard costs. A \$23 million earthquake retrofit took place prior to its dedication as a senior living facility in 1990. In addition, the Sky Room restaurant is currently operational, alleviating the need for a full-scale kitchen buildout for the food and beverage program. According to the Downtown Shoreline Plan, reuse of existing buildings does not require parking in excess of what currently exists, reducing the burden of high urban core parking costs. Finally, the building is currently vacant, lowering any relocation costs or hurdle NOI costs that would arise from a building that was currently leased and occupied.

Because of its existing residential-style configuration and earthquake retrofit, renovation costs for both the hotel and the restaurant meeting spaces are estimated to be approximately 80 percent of the hard cost estimates used in the new Upscale construction prototypes mentioned earlier in the report. Because of the lower hard costs in this scenario, FF&E costs are applied on a per key basis as opposed to a percentage of total development costs (typically about 11 percent of total development costs for Upscale properties). These total approximately \$28,000 per key, roughly in line with Full-Service hotels tracked in the HVS Development Cost survey. Due to the unpredictable nature of rehabilitation projects, a 10 percent contingency was also added to hard and soft costs.

The analysis assumes that this hotel would come online in mid-2019, achieving a stabilized occupancy rate of approximately 70 percent in the year 2021. While this is slightly lower than the current Citywide occupancy rate of 75.7 percent, it reflects the impact of a significant

supply increase (up to 834 rooms, including a 427-room high-rise hotel on the nearby Jergins Trust site) in the City's development pipeline, and is more in line with long-term levels.

ADRs in the Downtown and Waterfront submarket were \$158 in 2015. Assuming a 2.5 percent annual growth rate through 2021, as well as a weighted average "fair share" rate of 110 percent given the draw of a rehabilitated historic icon with waterfront views, this property could support an ADR of \$202, with a RevPAR of approximately \$141.

### ***235 E Broadway Development Program***

235 E Broadway is a 12-story, 104,000 square foot Class C office building constructed in 1923 on the northwest corner of Broadway and Long Beach Boulevard in Downtown Long Beach. Unlike the nearby Breakers, which is presumably better configured for hotel conversion given its historic use as a hotel and recent incarnation as a senior housing facility, the 235 E Broadway building would most likely need additional plumbing systems for bathrooms and other residential-style amenities, increasing the per square foot renovation cost higher than the Breakers.

This development program envisions 210 rooms on eleven of the building's 8,720 square-foot floors, with one of the twelve floors to be reserved for a lobby, on-site restaurant and meeting space. Assuming building-wide circulation averaging 25 percent and footprint for a 1,500-square foot restaurant, this would yield a meeting space size of just over 5,000 square feet.

Hard costs for this development prototype are based on KMA's feasibility memo for the Ocean Center Building, a project that seeks to renovate a similar historic office building into a boutique hotel. These two buildings are similar enough to yield a defensible comparison - both are office buildings from the 1920s located in Downtown Long Beach.

Development plans for the Ocean Center conversion estimated construction and renovation costs at approximately \$153,130 per room. With a development program of 139 rooms spread across 59,000 square feet of hotel and 11,300 square feet of restaurant space, this equates to approximately \$302/sf in hard shell costs. This amount was applied to all non-circulation elements of the 235 E Broadway, which is expected to require significant rehabilitation. As with the Breakers property, Long Beach code states that parking would only be required at the level that currently exists. Similar to the Breakers property, a ten percent contingency was added to hard and soft costs.

Assuming that this hotel would come online in mid-2019, the hotel would achieve a stabilized occupancy rate of approximately 70 percent in the year 2021. ADRs in the Downtown and Waterfront submarket were \$158 in 2015. Assuming a 2.5 percent annual growth rate through 2021, as well as a weighted average fair-share rate of 110 percent given the draw of a new property, the hotel could support an ADR of \$202, with a RevPAR of approximately \$141.

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**Table 4a: Adaptive Re-use Development Programs**

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|                                   | <b>Upscale<br/>Adaptive Reuse<br/>The Breakers</b> | <b>Upscale<br/>Adaptive Reuse<br/>235 E Broadway</b> |
|-----------------------------------|--|--|
| <b>Project Characteristics</b>    |  |  |
| Site area (acres)                 | 0.49   | 0.57   |
| Site area (sq. ft.)               | 21,344   | 24,829   |
| <b>Building</b>                   |  |  |
| Type                              | Existing High-Rise                                 | Existing High-Rise                                   |
| Hotel Rooms (#)                   | 243  | 210  |
| Avg/ room size, net (sq. ft.)     | 400  | 373  |
| Hotel Use (gross sq. ft.)         | 121,500  | 97,913   |
| Restaurant (gross sq. ft.)        | 4,500  | 1,500  |
| Meeting and Event (gross sq. ft.) | 6,900  | 5,047  |
| Building gross sq. ft. (gsf)      | 132,900  | 104,460  |
| <b>Parking</b>                    |  |  |
| Required New Spaces               | N/A  | N/A  |
| Type                              | Existing   | Existing   |

## Feasibility Findings for Adaptive Reuse Prototypes

The pro forma analysis shows that buildings formerly configured for residential or hospitality uses may be good candidates for feasible adaptive reuse hotel projects. Feasibility findings are summarized below in Table 4b.

### *The Breakers*

Generating an NOI of \$4.17 million and assuming an exit capitalization rate of seven percent, the Breakers adaptive reuse project would support a positive residual land value of approximately \$6.5 million (Table 4b). This is the only adaptive reuse model with a positive RLV due to several factors: a lower estimated per-key renovation cost compared to 235 E Broadway (\$118,000 per key versus \$145,000 per key), an existing food and beverage footprint, and residential configuration with waterfront appeal. The parcel is currently appraised by the Los Angeles County Assessor at \$10,869,136, making it a likely candidate for some form of incentive to spur investment.

### 235 E Broadway

As mentioned above, the adaptive reuse site at 235 E Broadway would not yield a positive residual land value as currently modeled. This is due primarily to the higher estimated renovation cost for office-to-residential style conversion. The parcel is currently appraised by the Los Angeles County Assessor at just over \$4 million, making the feasibility gap for this project slightly higher than for the Breakers.

**Table 4b: Feasibility Analysis, Adaptive Reuse**

|                                      | <b>Upscale<br/>Adaptive Reuse<br/>The Breakers</b> | <b>Upscale<br/>Adaptive Reuse<br/>235 E Broadway</b> |
|--------------------------------------|--|--|
| <b>Revenue Assumptions</b>           |  |  |
| Rooms (% total revenue)              | 80.0%  | 80.0%  |
| F&B (% total revenue)                | 18.0%  | 18.0%  |
| <b>Expense Assumptions</b>           |  |  |
| Departmental (% rev)                 | 33.7%  | 33.7%  |
| Undistributed Expenses (% revenue)   | 26.5%  | 26.5%  |
| <b>Net Operating Income</b>          | <b>\$4,173,340</b>                                 | <b>\$3,542,087</b>                                   |
| <b>Occupancy Assumptions</b>         |  |  |
| Year Stabilized                      | 2021   | 2021   |
| Target Occupancy                     | 70%  | 70%  |
| Target ADR                           | \$202  | \$202  |
| <b>Costs</b>                         |  |  |
| Hard Costs per Key                   | \$118,413  | \$145,019  |
| Soft Costs per Key                   | \$34,600   | \$30,385   |
| FF&E, per Key                        | \$28,000   | \$26,799   |
| FF&E, % Total Development Costs      | 13%  | 11%  |
| Total Development Costs              | \$53,131,132                                       | \$51,291,044   |
| <b>Cost per Key (excluding Land)</b> | <b>\$218,647</b>                                   | <b>\$244,243</b>                                     |
| <b>Financing/Feasibility</b>         |  |  |
| Exit Cap Rate                        | 7.00%  | 7.00%  |
| Residual Land Value (RLV)            | \$6,488,007  | (\$689,804)  |
| RLV per Key                          | \$26,700   | (\$3,285)  |
| RLV/sf                               | \$304  | (\$28)   |

Sources: STR, 2016; HVS, 2015-16; Cushman & Wakefield 2016; BAE, 2017.

## Premiums for Union Operation

The feasibility analyses above assume that hotels will be constructed with prevailing wage labor, but that hotels will operate without the requirement of a unionized labor force. To assess the potential additional impact of operating with a unionized workforce, the analysis also estimates the Residual Land Values for each of the new development prototypes as if it were operated with a unionized workforce. Table 5a summarizes the results for the four prototype hotels, each of which has a significantly lower Net Operating Income and Residual

Land Value when operated with a union workforce. To arrive at these estimates, BAE surveyed a number of hotel development pro formas with both union and non-union scenarios to arrive at an average "premium" of 14 percent in the Departmental Expenses category. This analysis indicates that if a unionized workforce were to be a requirement for the operation of these hotels, the feasibility gap would increase significantly.

**Table 5a: Premium for Union Operation, New Construction Prototypes**

|   | Upscale<br>Queen Mary site | Upscale<br>Airport site | Upper Upscale<br>Civic Center site<br>(Mixed Use) | Upper Upscale<br>Civic Center site<br>(Standalone) |
|---|----------------------------|-------------------------|---|--|
| <b>Net Operating Income (Non-Union Op.)</b>   | \$2,882,504                | \$2,393,537             | \$4,652,500                                       | \$2,635,990  |
| <b>Net Operating Income (Union Operation)</b> | \$2,462,389                | \$2,115,491             | \$3,520,810                                       | \$1,987,626  |
| <b>Financing/Feasibility</b>                  |                            |                         |   |  |
| Residual Land Value (RLV) Non-Union Op.       | \$5,001,245                | (\$698,005)             | (\$31,239,799)                                    | (\$20,810,471)                                     |
| RLV with Union Operation                      | (\$1,000,400)              | (\$4,533,125)           | (\$48,650,411)                                    | (\$30,785,301)                                     |
| <b>Premium for Union Operation, Total</b>     | (\$6,001,645)              | (\$3,835,120)           | (\$17,410,612)                                    | (\$9,974,830)                                      |
| <b>Premium for Union Operation, Per Key</b>   | (\$40,011)                 | (\$25,567)              | (\$87,053)  | (\$79,799)   |

Sources: STR, 2016; HVS, 2015-16; Cushman & Wakefield 2016; BAE, 2017.

Union operation has a similar impact on the proposed adaptive reuse hotel projects, as depicted in Table 5b. For both the Breakers and 235 E Broadway projects, the higher cost of union labor lowers the NOI, depressing the RLV from levels that are positive or nearly feasible to levels with feasibility gaps.

**Table 5b: Premium for Union Operation, Adaptive Reuse Projects**

|   | Upscale<br>Adaptive Reuse<br>The Breakers | Upscale<br>Adaptive Reuse<br>235 E Broadway |
|---|---|---|
| <b>Net Operating Income (Non-Union Op.)</b>   | \$4,173,340                               | \$3,542,087                                 |
| <b>Net Operating Income (Union Operation)</b> | \$3,434,878                               | \$2,903,910                                 |
| <b>Financing/Feasibility</b>                  |   |   |
| Residual Land Value (RLV) Non-Union Op.       | \$6,488,007                               | (\$689,804)                                 |
| RLV with Union Operation                      | (\$4,061,449)                             | (\$9,806,617)                               |
| <b>Premium for Union Operation, Total</b>     | (\$10,549,456)                            | (\$9,116,814)                               |
| <b>Premium for Union Operation, Per Key</b>   | (\$43,413)                                | (\$43,413)                                  |

Sources: STR, 2016; HVS, 2015-16; Cushman & Wakefield 2016; BAE, 2017.

Tables 5c and 5d estimate the degree to which additional TOT rebates could be used to address the impacts of requiring assisted hotels to operate with union labor. For each of the hotel development typologies, this analysis starts with the estimated annual TOT collection,

projects the total amount of TOT collected over a 20-year period using a modest annual growth rate of 2.5 percent, and then calculates the Net Present Value of those collections in current dollars. Assuming that each hotel has already been granted a TOT rebate of 50 percent over the 20-year rebate period, the tables identify the *additional* portion of the collected TOT that would need to be rebated to the hotel developers to fuller cover the cost of the requirement to operate with a union workforce. For the two Upper Upscale hotel prototypes, this analysis projects that the cost of the union operation exceeds the amount of additional TOT rebates that would be available.

**Table 5c: Availability of TOT Rebates to Fund Premium for Union Operation**

|  | Upscale         |                   | Upscale       |                   | Upper Upscale                    | Upper Upscale                     |
|--|-----------------|-------------------|---------------|-------------------|----------------------------------|-----------------------------------|
|  | Queen Mary site |                   | Airport site  |                   | Civic Center site<br>(Mixed Use) | Civic Center site<br>(Standalone) |
| Premium for Union Operation                          | (\$6,001,645)   |                   | (\$3,835,120) |                   | (\$17,410,612)                   | (\$9,974,830)                     |
| Annual TOT Collection                                | \$              | 969,084           | \$            | 797,881           | \$                               | 1,584,972                         |
| TOT Collection (20 years) (a)                        | \$              | 24,754,925        | \$            | 20,381,600        | \$                               | 40,487,557                        |
| <b>Net Present Value (Discount Rate of 6%)</b>       | <b>\$</b>       | <b>13,541,475</b> | <b>\$</b>     | <b>11,149,173</b> | <b>\$</b>                        | <b>22,147,562</b>                 |
| TOT Rebate (NPV) to Assist w ith Feasibility (b)     |                 | 50%               |               | 50%               |                                  | 50%                               |
| Additional TOT Rebate (NPV) for Union Premium (c)    |                 | <u>44%</u>        |               | <u>34%</u>        |                                  | <u>79%</u>                        |
| <b>Total TOT Rebate, Hotel w / Union Premium (d)</b> |                 | 94%               |               | 84%               |                                  | <b>129%</b>                       |

Notes:

- (a) 12 percent Long Beach TOT, projected to grow at 2.5 percent per year
- (b) Any hotel required to operate with union labor has presumably received the maximum TOT rebate (50 percent) to assist with development feasibility
- (c) Portion of the Net Present Value of TOT collections over 20 years necessary to account for the premium associated with union operation
- (d) Upper upscale hotels with Total Rebates over 100 percent are not projected to generate sufficient TOT to both assist development feasibility and cover union premium

**Table 5d: Availability of TOT Rebates to Fund Union Premium, Adaptive Reuse**

|   | Upscale<br>Adaptive Reuse<br>The Breakers |                   | Upscale<br>Adaptive Reuse<br>235 E Broadway |                   |
|---|---|-------------------|---|-------------------|
| Premium for Union Operation                         |   | (\$10,549,456)    |   | (\$9,116,814)     |
| Annual TOT Collection                               | \$  | 1,501,659         | \$  | 1,297,730         |
| TOT Collection (20 years) (a)                       | \$  | 38,359,371        | \$  | 33,150,074        |
| <b>Net Present Value (Discount Rate of 6%)</b>      | <b>\$</b>                                 | <b>20,983,399</b> | <b>\$</b>                                   | <b>18,133,801</b> |
| TOT Rebate (NPV) to Assist w ith Feasibility (b)    |   | 50%               |   | 50%               |
| Additional TOT Rebate (NPV) for Union Premium (c)   |   | <u>50%</u>        |   | <u>50%</u>        |
| <b>Total TOT Rebate, Hotel w/ Union Premium (d)</b> |   | 100%              |   | 100%              |

Notes:

- (a) 12 percent Long Beach TOT, projected to grow at 2.5 percent per year
- (b) Any hotel required to operate with union labor has presumably received the maximum TOT rebate (50 percent) to assist with development feasibility
- (c) Portion of the Net Present Value of TOT collections over 20 years necessary to account for the premium associated with union operation



# HOTEL INCENTIVES ANALYSIS

This section of the report provides an overview of hotel subsidies and incentive programs that have been implemented across the state. The organization of the section reflects a distinction between individual hotel *projects* that have received public subsidy, and the various hotel incentive *programs* that have been adopted in the state. While both projects and programs are described and analyzed, and there is some overlap in these definitions, the distinction is useful and provides the basis for recommendations for a Long Beach Hotel Incentive Program. Summaries of both hotel projects and incentive programs include an analysis of key findings and best practices. In addition, the section also contains a consideration of potential impacts of hotel incentives and incentive programs.

## Background and Types of Hotel Incentives

Many California cities in recent decades have contemplated a variety of incentives to facilitate the development of hotels. Prior to the dissolution of Redevelopment Agencies in 2012, municipalities commonly used Redevelopment powers to subsidize hotels through subsidized land sales or long-term ground leases at deeply discounted rates and funding for off-site infrastructure improvements. For example, much of the current inventory of upper-upscale hotels in Long Beach were the beneficiaries of such Redevelopment subsidies. Presently, some Successor Agencies continue to use former Redevelopment properties to incentivize new hotels, as provided for in Long Range Property Management Plans. This pool of properties is finite as a source of subsidy for hotel development.

Another way municipalities have incentivized hotel construction is through discretionary entitlements that allow owners to include for-sale condominium units along with hotel rooms in a single development. When integrated with and providing the amenities of a luxury hotel brand (such as Ritz-Carlton, Four Seasons, and Montage, to use recent examples) the for-sale units sell for a considerable premium and provide up-front sales proceeds that can help make the project financially feasible.

Absent the availability of surplus public land or discretionary entitlements, tax rebates are the form of subsidy that is most flexible and most frequently used by municipalities. Rebates of Transient Occupancy Taxes (TOT) or “bed taxes” that cities levy on hotel stays are the most common source of tax rebate, although other taxes associated with the development and operation of hotels, such as property, sales, and utilities taxes, are also potential sources of rebates. Typically, TOT rebate policies used by other cities in California involve providing rebates of 50 percent to 100 percent of the net increase in TOT generated by a hotel development, redevelopment, or expansion project. The rebate periods range from 3 to 30

years, although many cities place a maximum amount on the total rebate, regardless of length of time. Some formulas call for different rebate percentages over the rebate period (i.e., 66 percent of TOT for the first 5 years, then 33 percent for the next 5 years). Some cities require that the subject hotel invest a minimum amount per room, or attain 4-diamond or 4-star ratings to qualify for the rebates. Some have slightly different thresholds and formulas for renovations, relative to new development.

Other non-TOT vehicles for public subsidies of hotel development include:

- Below-market ground lease terms;
- Fee reductions, deferrals or waivers;
- Other tax rebates or deferrals (sales, property, parking, business, utility, etc.);
- Issuance of low-interest bonds, Certificates of Participation (CoPs), or loans; and
- Contribution of improvements to reduce costs (parking structure, off-sites, etc.).

Ground (and building) leases can be very advantageous to both the public sector (which retains control of the property, and creates a long-term revenue stream), and the private developers (who do not have to purchase the property up front, when capital is scarce). Additionally, leases can be structured to provide below-market payments in the early years of the lease (conserving the private capital in the early years), then increase to above-market levels in the later years, when the seasoned hotels can more easily afford it.

Reductions, deferrals and waivers of local fees and taxes can be useful, if the public agency can afford them. Bonds, CoPs or loans are greatly appreciated by the private developers and their investors, as these provide relatively low-cost financing up-front, and improve the investment and return metrics. Not all cities are able to issue bonds, however, so a thorough analysis of their bonding capacity and future needs must be conducted. If the city can participate in the development by building a portion of it (such as a detached parking structure), this can be an important cost-saving advantage to the developer, and provide the city with a hard asset for its subsidy dollars. Leases or Right-to-use agreements for such City-owned improvements are generally acceptable to the private sector, in exchange for saving large amounts of up front capital.

Table 6 lists the upscale, full-service hotels that have been constructed in California since 2000 using a public subsidy such as those described above, including 36 projects and 12,480 hotel rooms. Approximately half of hotels subsidized since 2000 have received tax rebates, as have almost all the most recently subsidized hotels in California.

**Table 6: Subsidized Full Service Hotels in California since 2000**

| Name of Establishment                | City             | Open | Rooms  | Subsidy                                 |
|--------------------------------------|------------------|------|--------|---|
|                                      |                  | Date |        |   |
| Crowne Plaza Resort                  | Garden Grove     | 2000 | 376    | Land & TOT subsidy                      |
| Hilton San Diego Gaslamp Quarter     | San Diego        | 2000 | 282    | Below-market land sale by City          |
| Portofino Inn & Suites               | Anaheim          | 2000 | 190    | City parking subsidy                    |
| Westin Palo Alto                     | Palo Alto        | 2000 | 184    | TOT rebate                              |
| Sheraton Hotel Grand Sacramento      | Sacramento       | 2001 | 503    | City bond                               |
| Embassy Suites                       | Garden Grove     | 2001 | 375    | land & TOT subsidy                      |
| Four Seasons San Francisco           | San Francisco    | 2001 | 277    | Residential for-sale                    |
| Ritz-Carlton Half Moon Bay           | Half Moon Bay    | 2001 | 261    | Residential for-sale                    |
| Marriott Suites Anaheim              | Garden Grove     | 2002 | 371    | land & TOT subsidy                      |
| Marriott San Diego Del Mar           | San Diego        | 2002 | 284    | Ballpark subsidies                      |
| Embassy Suites Sacramento Riverfront | Sacramento       | 2002 | 242    | land & TOT subsidy                      |
| Sheraton Hotel Sonoma County         | Petaluma         | 2002 | 183    | TOT subsidy                             |
| Lodge at Torrey Pines                | La Jolla         | 2002 | 175    | Ground Lease                            |
| Hyatt Vineyard Creek Sonoma County   | Santa Rosa       | 2002 | 155    | Land & Conference Center subsidy        |
| Hyatt Regency Huntington Beach       | Huntington Beach | 2003 | 517    | TOT subsidy                             |
| Marriott San Jose                    | San Jose         | 2003 | 506    | Ground Lease                            |
| Preferred Montage Resort & Spa       | Laguna Beach     | 2003 | 262    | Residential for-sale                    |
| Argonaut Hotel                       | San Francisco    | 2003 | 252    | Ground Lease                            |
| Preferred Hotel Valencia Santana Row | San Jose         | 2003 | 210    | Ground Lease                            |
| Omni San Diego Hotel                 | San Diego        | 2004 | 511    | Ballpark subsidies                      |
| Estancia La Jolla Hotel & Spa        | La Jolla         | 2004 | 210    | Ground Lease                            |
| St Regis San Francisco               | San Francisco    | 2005 | 260    | Residential for-sale                    |
| Hotel Solamar                        | San Diego        | 2005 | 235    | Ballpark subsidies                      |
| Hotel Vitale                         | San Francisco    | 2005 | 199    | Ground Lease                            |
| Doubletree Suites                    | Anaheim          | 2006 | 252    | TOT subsidy                             |
| Four Seasons                         | East Palo Alto   | 2006 | 200    | TOT subsidy, ground lease               |
| Hilton Convention Center             | San Diego        | 2008 | 1190   | Ground Lease, Port rent credits         |
| InterContinental Hotel               | Monterey         | 2008 | 208    | TO, property & sales tax subsidy        |
| Citizen Hotel                        | Sacramento       | 2008 | 198    | TOT rebate                              |
| Cavallo Point Lodge                  | Sausalito        | 2008 | 142    | TOT rebate, ground lease                |
| Montage Beverly Hills                | Beverly Hills    | 2008 | 201    | Land, TOT subsidy, residential for-sale |
| JW Marriott & Ritz-Carlton           | Los Angeles      | 2010 | 1001   | TOT subsidy, residential for-sale       |
| Ritz-Carlton Highlands               | Lake Tahoe       | 2010 | 173    | Residential for-sale                    |
| Marriot Courtyard and Residence Inn  | Los Angeles      | 2013 | 392    | TOT subsidy                             |
| Great Wolf Lodge                     | Garden Grove     | 2015 | 603    | TOT subsidy, off-site improvements      |
| Metropolis Hotel Indigo              | Los Angeles      | 2017 | 350    | TOT subsidy                             |
| Wilshire Grand InterContinental      | Los Angeles      | 2017 | 900    | TOT subsidy, Transferrable FAR          |
| Total Properties:                    |                  | 37   | 12,830 | rooms                                   |

**Sources:** Smith Travel Research, MR&A, BAE, 2016.

The size of a potential subsidy for a new or expanded hotel development will vary, and should be related to the amount of money needed by the developer/investor/owner to achieve a market rate of return on the project. Such an analysis, which would identify the Feasibility Gap for the proposed project, should be conducted for each project requesting public funds. The size of the subsidy would relate to the size of the Gap—i.e., the amount necessary to augment the private sector's return to bring them to market risk-adjusted levels. Each project will be different, and the Gap will vary at different points in the economic cycle.

On a per room basis, public subsidies for hotels in California have ranged widely, from \$15,000 to \$77,000 per room. The subsidies for 4-diamond hotels are typically much higher than for 3-diamond hotels. These subsidies range from 15 percent to 40 percent of total development costs.

Public benefits of subsidizing new hotel development include the direct benefits of increased tax revenues, temporary construction jobs, permanent operating jobs, and new community gathering spaces. Indirect benefits include public image enhancement, and the influx of visitor dollars, which recycle into the community. In certain circumstances, the new rooms can help the local convention center attract and retain groups that would otherwise not be able to be accommodated locally.

## **Survey of Statewide Hotel Incentive Programs**

Many of these subsidized hotels in Table 6 are singular projects stemming from the availability of a public property or a unique development proposal. However, several California cities have seen a need for an established, sustained hotel incentive program that sets standards for eligible projects and provides parameters around the types and amount of subsidy available to all potential projects. By establishing a formal policy, jurisdictions hope to provide a clear, understandable policy that reduces risk and delays for developers of projects that would provide important economic benefit to the city; conserves staff resources that would otherwise be spent analyzing and negotiating hotel incentives on a project-by-project basis; and establishes subsidy thresholds and security to protect the fiscal health of the General Fund. For some cities, a formal citywide policy aligns with a perceived need to increase the amount of hotel rooms to support existing infrastructure, such as a convention center or tourist attractions.

There is some geographic clustering of cities that have incentivized hotel projects and adopted incentive programs. Because the potential market demand for hotel rooms is not constrained by City boundaries, one City's adopted incentive program may spur nearby cities to consider similar programs to remain competitive and not lose out on potential TOT. This type of incentive "arms race" is evident in tourism-oriented areas including the Coachella Valley (where, Palm Springs, Cathedral City, Rancho Mirage, and La Quinta have all considered or adopted some sort of incentive policy or package in the last 15 years) and Orange County (where Anaheim has adopted a program, and Garden Grove and Santa Ana have subsidized numerous hotels).

The following is a summary of each of the hotel incentives programs that have been developed and adopted in California since 2008, including Anaheim, Cathedral City, Palm Springs, Rancho Palos Verdes, and Santa Barbara County. The summary also includes a discussion of the program developed by the City of Los Angeles. Although neither Los Angeles' initial

proposed incentive policy or the revised policy were adopted, it is included here because it was carefully crafted to achieve certain goals, and contains several policy elements that could be replicated in other cities. A full description of each Incentive Program is included as Appendix B.

### ***Anaheim***

The most recent California city to adopt a hotel incentive program is Anaheim, in Orange County. As the home to Disneyland, one of the country's most successful tourist attractions, Anaheim has long had a huge inventory of hotel rooms. The incentive program adopted in June 2015 is intended to facilitate the development of AAA 4-diamond "Luxury" hotel properties in a market generally characterized by more budget properties. To be eligible, new construction projects must have shell costs of at least \$225,000 per room, and Furniture, Fixtures, and Equipment (FF&E) Costs exceeding \$30,000 per room. Existing hotels undergoing renovation are also eligible, with project cost thresholds of \$100,000 shell costs and \$30,000 FF&E costs per room. The City Manager has the sole discretion to determine whether properties provide physical features and operational services that meet or exceed the AAA 4-diamond rating.

Eligible new construction hotels can obtain a rebate of up to 70 percent of incremental TOT; eligible renovating hotels can obtain up to a 50 percent rebate of incremental TOT from their properties. The owner of any eligible property will enter into an Operating Covenant Agreement with a 20-year term, in which the owner agrees to operate the hotel at the 4-diamond standard, and agrees to comply with the City's prevailing wage and local hire policies. The Operating Covenant Agreement requires the hotel owner to pay for and provide an annual third-party audit, confirming that the property is operating at a 4-diamond standard, and requires the City to return eligible TOT proceeds to the property as Incentive Payments. The Hotel Incentive Program is subject to an annual review by the City Manager, and violations could result in termination of the rebates at any time. The Program is also set to expire after five years – in June 2020 – unless extended by City Council.

### ***Cathedral City***

In 2012, Cathedral City in Riverside County adopted a hotel incentive program to enhance the tourist and travel experience for visitors; provide attractive amenities to the public; help the city achieve its tourism goals; and increase TOT receipts. Cathedral City's program applies to both new hotels and existing hotels with planned improvements. New hotels are eligible for rebates of up to 75 percent of the new TOT collected by the city over a 10-year period. Existing hotels can obtain rebates of up to 50 percent of the incremental increase in TOT for 10 years after the completion of renovation. The program does not include a stated maximum amount or rebate, but City Council has the discretion to impose a maximum on any approved project. Somewhat unique for an incentive program, Cathedral City's program includes discounts for local residents on hotels rooms, spa, golf, and food and beverage services.

### *Los Angeles*

Until dissolution in 2012, Los Angeles' efforts to incentivize hotel development were implemented largely by the Community Redevelopment Agency of the City of Los Angeles, (CRA/LA). City subsidies focused on Downtown Los Angeles, initially on Bunker Hill where the City conveyed land and paid for extensive infrastructure improvements to facilitate the construction of the landmark Bonaventure Hotel and the Omni Hotel at Cal Plaza. By the 1990s and 2000s, municipal interest in hotel development focused on building a headquarters hotel and other facilities for the Convention Center in South Park, and on building or renovating full-service hotels to solidify Hollywood's primacy within the entertainment industry by having modern upscale accommodations. Both Redevelopment and TOT subsidies were utilized to facilitate construction of the 1001-room Ritz Carlton/ JW Marriott Convention Center hotel in the LA Live complex, which opened in 2010, and the Grand Avenue Project, a yet-to-be constructed mixed-use complex planned to include a 4-star Equinox hotel. Both the LA Live and Grand Avenue deals include performance timelines and operational standards secured by covenants, and public benefits including prevailing wage, local hire, public art, and more.

Post Redevelopment, the City has continued interest in incentivizing hotel development. In 2013, City Council considered a Hotel Incentive Program designed to increase TOT revenues Citywide and spur investment in specific types of hotel in targeted geographic areas, emphasizing construction of new hotel rooms in the Convention Center district and Hollywood, and renovation of existing hotels near Los Angeles International Airport (LAX). For each target area and type of hotel, the proposed policy set size and location thresholds for eligibility, and different levels of potential subsidy. Incentives were generally capped at 50 percent or less of net new site-specific revenue. Incentives can be paid for up to 15 to 20 years, up to an amount equivalent to the verified financial gap.

For all proposed subsidies, prospective hotels developers would be required to fund the City's independent verification of a feasibility gap. Benchmarks for re-evaluation or termination of the Incentive Program were proposed for the different geographic target areas, and all subsidized projects would be required to enter into a Project Labor Agreement. Rather than adopt the proposed program, Council directed staff to prepare a revised Program with less focused requirements for eligibility.

The resulting revised policy proposed to open eligibility to any new construction projects with at least 300 rooms operating at a 3-star standard, or 3-star adaptive re-use projects, or hotel renovations exceeding 150 rooms. Any eligible project would receive up to 50 percent of net new site-specific tax revenues, including, TOT, utility tax, and the City's portion of sales and property tax. There is no limit on the term length for incentive rebates, although the total amount is capped at the verified financial gap. As with the originally proposed program, developers are required to fund the City's independent verification of a feasibility gap. The

revised program would have no sunset date, but is subject to a re-evaluation process every five years.

Neither the initial nor the revised Incentive Programs have been adopted by City Council. In the absence of an adopted program, requests for hotel incentives undergo ad hoc staff review, which in many ways aligns with proposed Program elements. Developers are required to fund the City's preparation of an independent gap analysis. Any rebate amounts are generally capped at the level of the demonstrated financial gap, or 50 percent of incremental site-specific revenues. However, at least one property developer has requested a rebate exceeding 50 percent.

### ***Palm Springs***

In 2008, the City of Palm Springs adopted a tiered hotel incentive program with different levels and terms of subsidies for hotels of different service levels. A new, first-class hotel is eligible to receive up to 75 percent of the incremental TOT over 30 years up to a maximum of \$50 million. At the other end of the spectrum, a new comfort hotel under 49 rooms would be eligible to receive a 50 percent TOT rebate over 10 years, up to a maximum of \$10 million. Existing hotels are eligible to receive rebates of 50 percent of incremental TOT after adoption of the program, up to \$25 million over 10 years.

All eligible hotels are asked to participate in the Palm Springs Convention Center's "committable rooms" program, which provides the convention center with a list of hotel properties and a count of hotel rooms available, one year in advance or more, for potential reservation by meeting groups and/or conventions in the City. First class hotels are required to participate in both the committable rooms program and convention center hotel shuttle service.

### ***Rancho Palos Verdes***

In 2009, the City of Rancho Palos Verdes adopted by ordinance a hotel incentive program to provide support for the operation and maintenance of first-class hotel facilities. The program's stated goals are to enhance the tourist and travel experience for visitors; provide sales and transient occupancy tax revenues to the City; and provide benefits to the City's residents. To be eligible for subsidy, a new hotel property must be operated as a first-class (three-star or diamond) property, with at least 250 rooms, food and beverage and room service, and 20,000 SF of meeting space. Under the program, an eligible property can potentially receive a rebate for up to 80 percent of the city's 10-percent TOT, up to a maximum of \$8.2 million over a 34-month period after the new facility begins operation. These program requirements are very specific, reflecting that the incentive was tailored to provide a subsidy to a specific resort hotel (Terranea) with a specific documented feasibility gap. As in Cathedral City, Rancho Palos Verdes' program includes discounts for local residents on hotels rooms, spa, golf, and food and beverage services.

### ***Santa Barbara County***

Although it is California's one example of a non-City jurisdiction with an adopted hotel incentive program, Santa Barbara County's 2012 ordinance shares most characteristics with other contemporary incentive programs. Incentives are available to new first-class hotels as well as existing hotels renovating to increase rates and the level of service. New hotel properties are eligible to receive rebates up to 70 percent of incremental TOT collected by the County for 15 years, less an offset for any potential decrease in the assessed valuation of the property. Renovating existing hotels are eligible for rebates of up to 50 percent of incremental TOT over 10 years. No maximum TOT rebate amount is established for either new or existing hotels. This program's unique characteristic is the "offset": the annual TOT rebate can be offset by any property tax loss experienced by the County in case the assessed value of the hotel property decreases for any reason during the rebate period.

### ***Summary of Incentive Programs Characteristics and Public Benefits***

The following tables provide an overview of the various incentive programs and common elements such as definitions of eligibility, terms of TOT rebates, administrative provisions, and what community benefits are required.

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**Table 7: Summary of Incentive Program Characteristics: Eligibility**

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| Jurisdiction         | Eligible Projects |                                   |                 |                       |                    |                  |
|----------------------|-------------------|-----------------------------------|-----------------|-----------------------|--------------------|------------------|
|                      | New Hotels        | Existing Hotels with Improvements | Existing Hotels | Service Level Minimum | Room Count Minimum | Geographic Focus |
| Anaheim              | ✓                 | ✓                                 |                 | ✓                     |                    |                  |
| Cathedral City       | ✓                 | ✓                                 |                 |                       |                    |                  |
| Los Angeles original | ✓                 | ✓                                 |                 | ✓                     | ✓                  | ✓                |
| Los Angeles revised  | ✓                 | ✓                                 |                 | ✓                     | ✓                  |                  |
| Palm Springs         | ✓                 | ✓                                 | ✓               | ✓                     | ✓                  |                  |
| Rancho Palos Verdes  | ✓                 |                                   |                 | ✓                     | ✓                  |                  |
| Santa Barbara County | ✓                 | ✓                                 |                 | ✓                     |                    |                  |

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**Source:** MR&A and BAE, 2016.



**Table 8: Summary of Incentive Program Characteristics: Administrative Terms**

| Jurisdiction         | Rebate Terms        |                    | Administrative               |                                     |                         |                |
|----------------------|---------------------|--------------------|------------------------------|-------------------------------------|-------------------------|----------------|
|                      | Defined Term Length | Max. Rebate Amount | Applicant Funds Gap Analysis | Applicant Funds Service Level Audit | Periodic Program Review | Program Sunset |
| Anaheim              | ✓                   |                    | ✓                            | ✓                                   | ✓                       | ✓              |
| Cathedral City       | ✓                   |                    | ✓                            |                                     |                         |                |
| Los Angeles original | ✓                   |                    | ✓                            |                                     | ✓                       | ✓              |
| Los Angeles revised  |                     |                    | ✓                            |                                     | ✓                       |                |
| Palm Springs         | ✓                   | ✓                  |                              | ✓                                   |                         |                |
| Rancho Palos Verdes  | ✓                   | ✓                  | ✓                            |                                     |                         |                |
| Santa Barbara County | ✓                   |                    |                              | ✓                                   |                         | ✓              |

Source: MR&A and BAE, 2016.

**Table 9: Summary of Incentive Program Characteristics: Public Benefits**

| Jurisdiction         | Public Benefits                 |                    | Labor Benefits  |                         |            |
|----------------------|---------------------------------|--------------------|-----------------|-------------------------|------------|
|                      | Convention Center participation | Resident Discounts | Prevailing Wage | Project Labor Agreement | Local Hire |
| Anaheim              |                                 |                    | ✓               |                         | ✓          |
| Cathedral City       |                                 | ✓                  |                 |                         |            |
| Los Angeles original | ✓                               |                    | ✓               | ✓                       |            |
| Los Angeles revised  | ✓                               |                    | ✓               | ✓                       |            |
| Palm Springs         | ✓                               |                    |                 |                         |            |
| Rancho Palos Verdes  |                                 | ✓                  |                 |                         |            |
| Santa Barbara County |                                 |                    | ✓               |                         |            |

Source: MR&A and BAE, 2016.

A compiled summary of incentive program characteristics is attached as Appendix C.

## Best Practices in Hotel Incentives

There are many commonalities between adopted incentives programs, as well as some variations that reflect local concerns or more comprehensive attempts to craft programs with specific goals. “Best Practices” are summarized here:

### *Operating Standards and Method of Verification*

Most local markets have a limited demand for new hotel rooms. As seen in the Financial Feasibility Analysis, the economics of hotel development will naturally tend toward the development of hotel product with a lower class of service and limited amenities, which will absorb any demand that could otherwise support hotels with higher class of service and amenities. Cities with hotel incentives generally seek to focus the investment of public funds to satisfy any additional demand by incentivizing hotel facilities that align with goals to support tourism and economic development. Accordingly, incentive programs should set a threshold for class of service, and identify the ratings system used to measure the level of service.

In addition, because it is generally financially feasible to develop new or renovate existing hotel products at the lower classes of service without any form of subsidy, providing TOT rebates or other subsidies for otherwise feasible hotel development effectively utilizes public funds for limited or no corresponding benefit. Accordingly, most incentive programs set minimum levels of service for eligible hotel projects both to satisfy limited demand with the best possible hotel product, and to avoid subsidizing hotel projects without a public benefit.

Given that there is no single standard for rating hotel services or quality, statewide incentive programs use a variety of standards, including AAA diamonds (Anaheim) or Forbes stars (Los Angeles). Other jurisdictions use the more general term of a “first class” hotel, a term defined within the ordinance establishing the incentive program. For example, the Santa Barbara County incentive program defines a first class hotel as a hotel with housekeeping services, food and beverage services, room services, banquet and meeting services, concierge and bellman services, and parking services, and meet or exceed the “higher” ratings criteria from ratings services including AAA, J.D. Power & Associates, or STR. The Palm Springs program uses a similar definition but adds the requirement that hotels operate 24 hours per day, and additionally allows hotels to qualify with a rating from Forbes. All adopted incentive programs require the owner applicant to provide an independent verification that the hotel facility is designed for and operating at the required level of service.

### *Developer Funding for Analysis*

Often, a city’s review of a request for hotel incentives requires considerable staff time and financial resources for third-party professional services. To alleviate this burden on public resources, some incentive programs require the developer/owner/applicant to provide the necessary funding for the city’s analysis. Cathedral City and Los Angeles specify that the developer provides funding for an analysis prepared by a third-party consultant retained by the

City. Other cities require the developer to provide an independent professional analysis for the city's review.

### ***Implementing Instrument***

Cities implement the hotel incentives with agreements that set forth the obligations of the City to provide a specified level of rebates over a set amount of time, and the obligations of the hotel owner to operate the hotel facility to the specified standards. This instrument commonly takes the form of an operating covenant agreement executed by the owner, and is recorded on the property for the benefit of the jurisdiction. The City of Los Angeles is somewhat unique – its program is implemented by a memorandum of understanding, a subvention agreement, and the establishment of a community taxing district composed solely of the subject property.

### ***Support for Convention Center***

In Los Angeles and Palm Springs, hotel investment is considered a priority in part to support a convention center. Accordingly, the incentive programs in these jurisdictions require participating hotels to work with the convention center to facilitate event bookings. The most critical support of this kind that a hotel facility can provide is a room block agreement, whereby the hotel consents to reserve future blocks of discount room nights to the convention center events, to facilitate booking of larger events. The Palm Springs incentive program also requires incentivized hotels to participate in an existing shuttle program between hotels and the convention center. Hotels could also be required to incorporate a certain amount of on-site meeting or event space to complement convention center facilities.

### ***Administrative Review and Sunset Provisions***

Although some incentive programs are open-ended and ongoing, others provide for a periodic review of the program's performance and outcomes. A specific periodic review gives the City the opportunity to evaluate the current conditions of the hotel market, assess the need for continuing the program, and consider adjustments to address recognized shortcomings. Some programs also provide a trigger for termination of the incentive program. The trigger could be a date certain, as in Anaheim, Santa Barbara County, and the LAX area. Incentive programs with this type of sunset provision effectively seek to stimulate a certain kind of hotel development within a relatively short time frame.

### ***Specified Number of Hotel Rooms***

In addition to temporal-based sunset limitations, an incentive policy could also be calibrated to achieve a specific number of new hotel rooms. For example, in the Los Angeles Convention Center Area, the City's goal is to stimulate the development of 7,300 rooms – the "critical mass" deemed necessary to support convention center activities. The policy accordingly requires a reevaluation of the hotel market once that threshold on 7,300 rooms is achieved, to avoid providing more incentives that are necessary to achieve the City's goals.

In a market with a limited demand for more hotel rooms, an incentive capped at the projected level of demand for new hotel rooms could help ensure that the city doesn't incentivize new hotel projects beyond what is market-supportable. The likelihood of overproduction of hotel rooms due to an incentive program is low – lenders are extremely market sensitive and are the key factor in hotel development that protects against overbuilding. The consultant team is not familiar with any hotel market in which incentives has triggered an oversupply of hotel rooms. Additionally, overbuilding is at worst a temporary phenomenon, as any current oversupply will be absorbed over a period during which lenders would decline to fund newer projects. However, an incentive program in a city with limited demand should be mindful of the projected local market demand and seek to satisfy that demand with hotel product that aligns with economic development goals.

### ***Benefits for Existing Hotels***

Given the potential sensitivity of existing hotel operators to public subsidy for new competitors, most incentive programs incorporate provisions that provide potential benefits to existing facilities. Hotels undergoing renovation to upgrade to a higher level of service are eligible in Anaheim, Los Angeles, and Santa Barbara County. Cathedral City allows for rebates to any hotel undergoing renovation that results in an increase in TOT. Palm Springs has the most inclusive and generous adopted policy: any existing hotel, regardless of any investment or improvements, can apply for a rebate for incremental TOT after adoption of the program.

### ***Design Review or Land-Use Requirements***

One of the evaluated incentive programs requires participating hotels to align with the City's planning and land use goals, beyond conformance to the zoning code. In the LAX area along Century Boulevard, hotel projects need to incorporate ground-floor facilities such as restaurants or retail space and install pedestrian improvements to be eligible for the incentive program. One interviewed stakeholder suggested that Long Beach should ensure that any incentivized hotels are appealing to visitors in their amenities and design characteristics.

## **Potential Impacts of Hotel Incentives**

The clearly stated goal of a hotel incentive program is to facilitate the development of new or redeveloped hotel rooms that generate revenue. This section of the study examines additional potential impacts.

### ***Potential for TOT Reduction***

TOT proceeds are used in most cities to supplement General Fund revenues as well as to support the local tourist industries, including marketing, event coordination, and the activities of convention centers and visitor bureaus. To the extent that a TOT rebate is granted to a hotel development that would have been built without the public subsidy, the result would be a net reduction in the amount of TOT collected by the city for these purposes. One hotel

manager interviewed for this study objected not necessarily to public subsidy for new hotels, but rather to the potential loss of TOT receipts that would otherwise fund the promotion of tourism.

### ***Impacts on Existing Hotels / Competition***

In cities with a mature and diverse hotel inventory, there can be pushback from existing hotel owners at the prospect of a publicly-subsidized new competitor. If the subject project can be linked to a well-accepted need, or if it fills a niche market that is currently under-served, such resistance is generally lower. Examples include adding a new group-oriented hotel near the local convention center that is willing to commit large blocks of rooms, or a luxury hotel or recreationally-oriented lifestyle resort, especially if there may not be any of these specialty hotel products currently in the market. In each of these cases, the differentiated hotels induce new room demand into the market once the new hotel facility is built, rather than simply spreading out the total existing room demand among more hotels.

Research into impact of public subsidies of existing hotel facilities shows that there are many variables at play, and outcomes are not uniform across different markets. A recent study from the Center for Real Estate and Finance at the Cornell University School of Hotel Administration<sup>4</sup> looked at key performance metrics for hotels in markets with new competition from publicly subsidized hotels. The impact analyses show few consistent results. Of the eight hotel markets studied, five saw decreases in indexed RevPAR after introduction of a new subsidized competitor, suggesting that the new hotel absorbed a portion of the existing demand and depressed occupancy and room rates at existing hotels. The other three markets studied saw an increase in RevPAR across the market after the opening of a new subsidized hotel, suggesting that the new facility acted as a “game changer” that increased room rates, and attracted new demand by raising the profile of the market and/or providing a differentiated product. The study also measured seasonal volatility after the introduction of a new subsidized hotel, finding that volatility increased in half the markets and decreased in the other half.

Generally, the potential for a new hotel project to “cannibalize” demand from existing hotel facilities is minimized if the new property includes facilities such as meeting or event space or other amenities that draw additional demand to the market, rather than competing for the same travelers. Similarly, new hotel properties that serve a clientele that is not currently served by existing properties, such as “staycation” or extended stay visitors, tend to add rather than compete for demand. Also, new properties with a unique character, such as an adaptive re-use or boutique property such as an Ace, Kimpton, Joie de Vivre, or Hard Rock hotel, appeals to a different audience and complements, rather than competes with, existing properties.

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<sup>4</sup> Nelson, Robert R. “The Impact of Publicly Subsidized Hotels in the United States on Competing Properties.” 2014.

### ***Perception of Subsidies in Capital Markets***

Capital markets typically perceive public subsidies for hotels as positive, especially if the subsidies improve their investment metrics, such as loan-to-value ratios and internal rates of return, and do not increase risk measurably. Generally, if most of the subsidy occurs in the early years of the project, it is more advantageous to the project investors. For hotel ground leases, investors and lenders require the terms to be at least 50 years, and preferably with options potentially able to extend the lease term to 90 years or more.

# POLICY RECOMMENDATIONS

## Policy Framework

This study concludes that TOT rebates should be made available to encourage the development of new full-service hotels in the City in the Downtown and Waterfront area, where they would support both the Convention Center and Downtown Long Beach's evolution into a mixed-use district with jobs, commercial services, housing, cultural and entertainment options, and tourism attractions. The preceding Market Analysis (Table 26) projected that demand in the near-term through 2020 in the Downtown and Waterfront area is for 501 new hotel rooms, while long-term demand (through 2040) is projected for 1,376 additional rooms. If all the 461 hotel rooms currently planned in the Downtown area (Market Study Table 4) are constructed, there will be limited demand for additional hotel rooms in the short term but significant demand over the long term. The Market Analysis also suggests that the Airport submarket has sufficient product in the pipeline to serve current and projected future demand. Lower priority would be given to projects in other parts of the City.

Given the limited nature of demand for new hotel rooms in Downtown, this study recommends a hotel incentive policy that narrowly targets potential incentives on full-service hotels with meeting and event space, restaurants, and other amenities that will draw additional demand to the market, and encourages development of unique adaptive re-use or boutique hotel properties that will complement the existing hotel inventory.

Generally, the TOT rebate program should be designed to improve the overall quality and range of hospitality options. The subsidies should be available to: 1) new hotel development; 2) expansions of or investments in existing hotels to include new rooms or facilities or increase the level of service; and 3) conversions of non-hotel uses of existing buildings to hotels. Simple renovations or upgrades of existing hotel finishes, without the addition of new rooms or an increase in service level, are considered a standard cost of operating and are required in branded hotels periodically, and should not be subsidized.

The program should require a threshold level of service and amenities so that participating hotels will contribute to tourism infrastructure and ideally induce demand for additional visitors, rather than just compete with existing hotel facilities for the existing level of visitors. Examples include new hotels with a significant amount of event and meeting space, or public-serving amenities such as restaurants or spa services, and boutique or adaptive-reuse properties with a unique branding and clientele. The highest priority for subsidies should be given to full-service, Upscale, Upper-Upscale or Luxury class hotels located near the Convention Center. Hotels providing select-, rather than full-, service may be eligible for TOT subsidies if the development satisfies an additional City goal such as rehabilitation of a

historic building, or satisfying an otherwise underserved niche. Participation in room blocking policies in conjunction with the Convention Center should be required for hotels receiving public subsidies. By focusing on full-service hotels that induce demand and unique properties that complement the existing inventory of hotel options, the program could strengthen the overall market and limit the degree to which new incentivized hotels would compete for existing demand.

This study recommends that the City periodically review and reauthorize the incentive program. Such a periodic review will give the City an opportunity to evaluate program outcomes and determine if objectives are being met. Each review should include an assessment of the existing room inventory and current and projected future demand, to ensure that the program is targeting the number of rooms and types of hotels that align with city goals.

The amount of incremental TOT revenues to be shared for any individual project should generally be 50 percent, and could be as high as 100 percent for limited periods of time, in certain circumstances, as long as the overall percentage does not exceed 50 percent over the term of the rebate period. The length of time for the sharing can vary, but should generally be in the range of 20 to 30 years, except in special circumstances.

Each hotel project should have a different maximum amount of subsidy, based upon an independent, developer-funded analysis of the Feasibility Gap. Once the total amount of agreed-upon TOT sharing has been reached, the TOT sharing would stop, regardless of the agreed-upon period. The TOT sharing would expire upon reaching the agreed-upon limit, or the maximum period provided, whichever comes first.

The Feasibility Gap analysis for each proposed hotel project would take into account the timing, development costs, projected revenues, operating expenses, capital stack, and rate of return to the hotel developer/investor/owners. The goal should be to estimate a level of subsidy sufficient to bring the private sector's projected internal rate of return up to a market level based on the risks and rewards of the proposed development.

The public subsidies can take many forms, depending on the specific circumstances. If the City owns the land or existing building, a ground or building lease should be considered. If not, the TOT sharing program described above should be the first form of subsidy offered. If additional subsidy is needed, the City should consider other, non-TOT vehicles, such as:

- Fee reductions, deferrals or waivers;
- Other tax rebates or deferrals (sales, property, parking, business, utility, etc.);
- Issuance of low-interest bonds, Certificates of Participation (CoPs), or loans; and
- Contribution of improvements to reduce costs (parking structure, off-sites, etc.).



Finally, the City has the option to either adopt a formal incentive program such as that described in the study, or to use the guidelines described herein to evaluate specific requests for TOT incentives on an ad hoc basis. Across the state, although dozens of municipalities have incentivized hotel developments in some fashion, only a handful have adopted formal policies.

The informal “guidelines” approach has the benefit of being flexible and allowing for consideration of all requests for hotel incentives. At the same time, it diminishes the City’s ability to focus the development community on hotel opportunities that are most beneficial to the City. And from the perspective of the development community, discretionary incentives entail an undesirable level of risk. By contrast, a formally adopted incentive program could facilitate any outreach and marketing efforts and focus the development community on projects that align with City objectives. An adopted program would also reduce developer risk, provide the maximum transparency for the investment of public resources, and streamline staff review.

Table 10 summarizes the key elements of a Hotel Incentive Program, including the consultant team’s recommendations based on the findings of the Hotel Market Demand Analysis and this study.

**Table 10: Hotel Incentive Program – Summary of Recommendations**

| <b>Element</b>                 | <b>Description</b>  | <b>Recommendation</b>  |
|--------------------------------|---|--|
| <b>Project Eligibility</b>     |   |  |
| Location                       | Geographic boundaries within which TOT rebates are allowable                                | Downtown and waterfront  |
| Level of Service               | Identify the preferred rating system and level of service for eligible hotels               | Full-service hotels at AAA three-diamond level or above. Select-service considered for historic rehab projects.  |
| Size                           | Participating hotels must have a certain number of rooms.                                   | No size threshold is recommended   |
| Amenities                      | Uses required on the property in addition to guest rooms.                                   | Hotels near Convention Center include meeting space of at least 5,000 SF, with 10,000 SF preferred   |
| New or Existing                | In addition to new hotels, are hotel expansions or renovations eligible?                    | Existing hotels undergoing renovation to add rooms or facilities or to significantly improve level of service are eligible for TOT increment rebates. Periodic refreshes of FF&E to meet brand standards do not qualify. |
| <b>Rebate Terms</b>            |   |  |
| % of TOT                       | Amount of total TOT eligible for rebate   | Generally 50% of incremental TOT over the rebate term; percentage can start higher and be staggered downwards over time  |
| Duration of Rebate             | How long hotels can receive TOT rebates   | Generally 20 to 30 years, with exceptions  |
| Cap on rebate amount           | Total amount of TOT that can be rebated   | Up to a limit of the estimated Feasibility Gap   |
| Program versus Project         | Rebate terms applied program-wide, or set for each individual project                       | Program-wide rebate terms  |
| <b>Administrative</b>          |   |  |
| Funding for City Analysis      | How to cover City costs for reviewing applications  | Developer funds City's third-party analysis  |
| Periodic Review                | Established time period after which City staff will review program outcomes                 | Program to be reviewed with respect to outcomes and market conditions every three years.   |
| Sunset                         | Program to expire on a date certain, or when a certain number of new hotel rooms are built. | Program requires review and reauthorization upon the sooner of: 5 years after adoption, or construction of a number of hotel rooms equivalent to the projected demand  |
| <b>Implementing Instrument</b> | Contracts or legal documents documenting requirements for City and Applicant                | Operating covenant recorded on title, requiring maintenance of service level and brand for at least the duration of rebates  |
| <b>Room Block Agreement</b>    | Hotel operator will provide blocks of future rooms for CVB-organized events                 | At least 50% room block, under program-wide terms developed in consultation with CVB   |
| <b>Design Guidelines</b>       | Design requirements for participating hotels  | Especially in highly visible locations near the Convention Center and waterfront, adopt design guidelines so that participating hotels enhance the public realm and the visitor experience, especially at ground level   |

## APPENDIX A: DEVELOPMENT PRO FORMAS

| Select Service, Upscale Queen Mary site                |              |               | Operating Revenue & Expense Assumptions |                 |                    | Development Costs                    |                       |           |
|--|--------------|---------------|---|-----------------|--------------------|--------------------------------------|-----------------------|-----------|
| <b>Project Characteristics</b>                         |              |               |   |                 |                    | <b>Hard Costs</b>                    |                       |           |
| <b>Site</b>  |              |               | <b>Operating Revenue (g)</b>            | <b>Ratio</b>    | <b>Total</b>       | <b>per key</b>                       |                       |           |
| Site area (acres)                                      | 3.50         |               | Rooms                                   | 83.7%           | \$8,075,702        | Building Hard Construction Costs     | \$18,468,828          | \$123,126 |
| Site area (sq. ft.)                                    | 152,460      |               | Food & Beverage                         | 13.4%           | \$1,292,884        | Parking Costs                        | \$837,500             |           |
|  |              |               | Other Operating Departments             | 2.1%            | \$202,616          | Demolition and Site Costs            | <u>\$1,524,600</u>    |           |
|  |              |               | Misc. Income                            | 0.8%            | \$77,187           | <b>Subtotal</b>                      | <b>\$23,955,567</b>   | \$159,704 |
| <b>Building</b>  |              |               | <b>Total Revenue</b>                    | <b>100.0%</b>   | <b>\$9,648,389</b> | <b>FF&amp;E Costs</b>                | <b>\$3,981,879</b>    | \$26,546  |
| Hotel Rooms  | 150          |               |   |                 |                    |                                      |                       |           |
| Avg. room size, net (sq. ft.)                          | 375          |               | <b>Departmental Expenses</b>            |                 |                    | <b>Soft Costs</b>                    |                       |           |
| Net Guest Room (sq. ft.)                               | 56,250       |               | Rooms                                   | 23.3%           | \$1,881,859        | Soft Costs                           | \$4,791,113           |           |
| Back of House/Circulation (% of room sq. ft.)          | 25%          | 14,063        | Food & Beverage                         | 77.0%           | \$995,592          | Impact and Connection Fees           | <u>\$216,875</u>      |           |
| Walls/Shafts (% of room sq. ft.)                       | 15%          | 8,438         | Minor Operating Departments             | 60.9%           | \$123,371          | <b>Subtotal</b>                      | <b>\$5,007,989</b>    | \$33,387  |
| Hotel (gross sq. ft.)                                  |              | 78,750        | <b>Total Departmental Expenses</b>      | <b>31.1%</b>    | <b>\$3,000,822</b> | <b>Total Construction Costs</b>      | <b>\$32,945,435</b>   | \$219,636 |
| Restaurant (seats / gross sq. ft.)                     |              | 1,500         |   |                 |                    |                                      |                       |           |
| Meeting and Event Space (gross sq. ft.)                |              | 2,000         |   |                 |                    | <b>Financing Costs</b>               |                       |           |
| Building gross sq. ft. (gsf)                           |              | 82,250        | <b>Undistributed Expenses</b>           |                 |                    | Financing - Interest                 | \$1,452,894           |           |
| Built Project FAR                                      |              | 0.54          | Administrative & General                | 8.4%            | \$814,604          | Financing - Points                   | <u>\$461,236</u>      |           |
|  |              |               | Marketing                               | 5.9%            | \$573,737          | <b>Subtotal</b>                      | <b>\$1,914,130</b>    |           |
| <b>Parking (a)</b>                                     | <b>Ratio</b> | <b>Spaces</b> | Franchise Fees                          | 4.1%            | \$391,238          | <b>Developer Fee</b>                 | <b>\$1,317,817</b>    |           |
| Hotel parking (ratio per guest room.)                  | 1            | 150           | Property Operation & Maintenance        | 4.3%            | \$418,060          | <b>Total Development Costs</b>       | <b>\$36,177,382</b>   | \$241,183 |
| Meeting Space parking (per 1,000 GFA)                  | 20           | 40            | Utilities                               | 3.7%            | \$361,425          |                                      |                       |           |
| Restaurants (per 1,000 sf indoor area)                 | 10           | 15            | <b>Total</b>                            | <b>26.5%</b>    | <b>\$2,559,063</b> |                                      |                       |           |
| Total Required Parking                                 |              | 168           |   |                 |                    |                                      |                       |           |
|  |              |               | <b>Gross Operating Profit</b>           |                 | <b>\$4,088,504</b> |                                      |                       |           |
| <b>Development Cost Assumptions</b>                    |              |               | <b>Fixed Expenses</b>                   |                 |                    | <b>Residual Land Value Analysis</b>  |                       |           |
| Hard costs per sq. ft. of hotel & common space (b)     |              | \$224         | Management Fees                         | 3.0%            | \$289,452          | <b>Projected Income</b>              |                       |           |
| Hard costs per sq. ft. of restaurant/meeting space (c) |              | \$237         | Insurance                               | 1.0%            | \$96,484           | Gross Hotel Revenues                 | \$9,648,389           |           |
| Standard FF&E: % Total Development Costs (d)           |              | 11%           | Property and Other Tax (% Total Dev Co: | 1.2%            | \$434,129          | Less Expenses                        | <b>(\$6,765,886)</b>  |           |
|  |              |               | Reserve for Replacement                 | 4.0%            | \$385,936          | Net Operating Income (NOI)           | \$2,882,504           |           |
| Parking/space: space / surface (on-site)               | 168          | \$5,000       | <b>Total</b>                            | <b>9.2%</b>     | <b>\$1,206,000</b> | Development Feasibility              |                       |           |
| space / structure                                      | 0            | \$25,000      |   |                 |                    | Capitalized Value                    | \$41,178,627          |           |
| space / underground                                    | 0            | \$55,000      | <b>Net Operating Income</b>             |                 | <b>\$2,882,504</b> | Less Development Costs               | <b>(\$36,177,382)</b> |           |
| On and off-site costs per site sq. ft. (e)             |              | \$10.00       |   |                 |                    | Residual Land Value                  | \$5,001,245           |           |
| Impact fees (total)                                    |              | \$216,875     |   |                 |                    | Residual value / acre                | \$1,428,927           |           |
| Soft costs as % of hard costs                          |              | 20%           |   |                 |                    | Residual Value/room                  | \$33,342              |           |
| Developer fee as % of hard & soft costs                |              | 4%            |   |                 |                    | <b>Estimated Annual City Revenue</b> |                       |           |
| Prevailing wage as % of hard costs                     |              | 15%           |   |                 |                    | Transient Occupancy Tax (h)          | \$969,084             |           |
|  |              |               | <b>Revenue Assumptions</b>              |                 |                    | Property Tax (i)                     | \$89,193              |           |
| <b>Construction Financing Assumptions</b>              |              |               | ADR 2015, Downtown/Waterfront           | \$158           |                    | Sales Tax (j)                        | \$25,858              |           |
| Loan to cost ratio                                     | 70%          |               | Assumed Year Stabilized Occupancy       | 2021            |                    |                                      |                       |           |
| Total Loan Amount                                      | \$23,061,805 |               | ADR 2021, (2.5% annual growth)          | \$183           |                    |                                      |                       |           |
| Loan Fee (points)                                      | 2%           |               | Estimated ADR, 115% fair share rate     | \$211           |                    |                                      |                       |           |
| Interest Rate  | 7%           |               | Assumed Occupancy Rate                  | 70%             |                    |                                      |                       |           |
| Loan Period (months)                                   | 18           |               | <i>Estimated Rev PAR</i>                | <i>\$147.50</i> |                    |                                      |                       |           |
| Drawdown Factor  | 60%          |               |   |                 |                    |                                      |                       |           |
| Capitalization Rate                                    | 7.00%        |               |   |                 |                    |                                      |                       |           |

Notes:

- (a) Parking Ratios per Queensway Bay PDP Long Beach Municipal Code 21.41.216: Hotel uses - one parking space per hotel guest room  
<http://www.lbds.info/civica/filebank/blobdload.asp?BlobID=2469>
- (b) Per HVS 2015-16 Dev Cost Survey cost for Midscale Class hotels w F&B - \$117,600 per key hard shell costs
- (c) Per RSMeans 2015 - M530 Restaurant - Stucco on Concrete Block with Steel Joists: Adjusted by Long Beach Location Factor of 1.04
- (d) HVS Hotel Development Costs Survey for Midscale Class hotels, 2015-2016, net Land
- (e) Site prep cost includes demolition and landscaping costs.
- (f) Impact and connection fees per Annual and Five Year Reports for Citywide Fees, published March 22, 2016
- (g) Expense Ratios adapted from 2016 STR HOST Summary Report for Upscale class; Revenue Ratios adapted from Pinnacle Study for American Life hotel property
- (h) City transient occupancy tax rate of 12 percent applied to room revenue
- (i) City property tax return rate of 21.66 percent of property tax collected on the capitalized value of the hotel property
- (j) City sales tax return rate of 2 percent applied to Food and Beverage revenue

| Select-Service, Upscale Airport                        |              |               | Operating Revenue & Expense Assumptions  |               |                    | Development Costs                    |                       |                |
|--|--------------|---------------|--|---------------|--------------------|--------------------------------------|-----------------------|----------------|
| <b>Project Characteristics</b>                         |              |               | <b>Operating Revenue (g)</b>             |               |                    | <b>Hard Costs</b>                    |                       |                |
| <b>Site</b>  |              |               |  | <b>Ratio</b>  | <b>Total</b>       |                                      |                       | <b>per key</b> |
| Site area (acres)                                      |              | 2.50          | Rooms                                    | 91.0%         | \$6,649,009        | Building Hard Construction Costs     | \$17,758,404          | \$118,389      |
| Site area (sq. ft.)                                    |              | 108,900       | Food & Beverage                          | 6.1%          | \$445,703          | Parking Costs                        | \$800,000             |                |
|  |              |               | Other Operating Departments              | 2.1%          | \$153,439          | Demolition and Site Costs            | <u>\$1,089,000</u>    |                |
|  |              |               | Misc. Income                             | 0.8%          | \$58,453           | <b>Subtotal</b>                      | <b>\$22,594,515</b>   | \$150,630      |
| <b>Building</b>  |              |               | <b>Total Revenue</b>                     | <b>100.0%</b> | <b>\$7,306,604</b> | <b>FF&amp;E Costs</b>                | <b>\$3,374,097</b>    | \$22,494       |
| Hotel Rooms  |              | 150           |  |               |                    |                                      |                       |                |
| Avg. room size (sq. ft.)                               |              | 375           | <b>Departmental Expenses</b>             |               |                    | <b>Soft Costs</b>                    |                       |                |
| Net Guest Room (sq. ft.)                               |              | 56,250        | Rooms                                    | 23.3%         | \$1,549,401        | Soft Costs                           | \$4,518,903           |                |
| Back of House/Circulation (% of room sq. ft.)          | 25%          | 14,063        | Food & Beverage                          | 77.0%         | \$343,216          | Impact Fees                          | <u>\$213,068</u>      |                |
| Walls/Shafts (% of room sq. ft.)                       | 15%          | 8,438         | Minor Operating Departments              | 60.9%         | \$93,428           | <b>Subtotal</b>                      | <b>\$4,731,971</b>    | \$31,546       |
| Hotel (gross sq. ft.)                                  |              | 78,750        | <b>Total Departmental Expenses</b>       | <b>27.2%</b>  | <b>\$1,986,044</b> |                                      |                       |                |
| Restaurant (seats / gross sq. ft.)                     |              | N/A           |  |               |                    | <b>Total Construction Costs</b>      | <b>\$30,700,583</b>   | \$204,671      |
| Meeting and Event Space (gross sq. ft.)                |              | 500           | <b>Undistributed Expenses</b>            |               |                    | <b>Financing Costs</b>               |                       |                |
| Building gross sq. ft. (gsf)                           |              | 79,250        | Administrative & General                 | 8.4%          | \$616,889          | Financing - Interest                 | \$1,353,896           |                |
| Built Project FAR                                      |              | 0.73          | Marketing                                | 5.9%          | \$434,484          | Financing - Points                   | <u>\$429,808</u>      |                |
|  |              |               | Franchise Fees                           | 4.1%          | \$296,279          | <b>Subtotal</b>                      | <b>\$1,783,704</b>    |                |
| <b>Parking (a)</b>                                     | <b>Ratio</b> | <b>Spaces</b> | Property Operation & Maintenance         | 4.3%          | \$316,591          | <b>Developer Fee</b>                 | <b>\$1,228,023</b>    |                |
| Hotel parking (ratio per guest room.)                  | 1            | 150           | Utilities                                | 3.7%          | \$273,702          |                                      |                       |                |
| Meeting Space parking (per 1,000 GFA)                  | 20           | <u>10</u>     | <b>Total</b>                             | <b>26.5%</b>  | <b>\$1,937,946</b> | <b>Total Development Costs</b>       | <b>\$33,712,310</b>   | \$224,749      |
| Total Required Parking                                 |              | 160           |  |               |                    |                                      |                       |                |
| <b>Development Cost Assumptions</b>                    |              |               | <b>Gross Operating Profit</b>            |               | <b>\$3,382,613</b> | <b>Residual Land Value Analysis</b>  |                       |                |
| Hard costs per sq. ft. of hotel & common space (b)     |              | \$224         | <b>Fixed Expenses</b>                    |               |                    | <b>Projected Income</b>              |                       |                |
| Hard costs per sq. ft. of restaurant/meeting space (c) |              | \$237         | Management Fees                          | 3.0%          | \$219,198          | Gross Hotel Revenues                 | \$7,306,604           |                |
| Standard FF&E: % Total Development Costs (d)           |              | 10%           | Insurance                                | 1.0%          | \$73,066           | Less Expenses                        | <b>(\$4,913,067)</b>  |                |
|  |              |               | Property and Other Tax (% Total Dev Cos) | 1.2%          | \$404,548          | Net Operating Income (NOI)           | \$2,393,537           |                |
| Parking/space: space / surface (on-site)               | 160          | \$5,000       | Reserve for Replacement                  | 4.0%          | \$292,264          |                                      |                       |                |
| space / structure                                      | 0            | \$25,000      | <b>Total</b>                             | <b>9.2%</b>   | <b>\$989,076</b>   | Development Feasibility              |                       |                |
| space / underground                                    | 0            | \$55,000      |  |               |                    | Capitalized Value                    | \$33,014,304          |                |
| On and off-site costs per site sq. ft. (e)             |              | \$10.00       | <b>Net Operating Income</b>              |               | <b>\$2,393,537</b> | Less Development Costs               | <b>(\$33,712,310)</b> |                |
| Impact fees (total) (f)                                |              | \$213,068     |  |               |                    | Residual Land Value                  | <b>(\$698,005)</b>    |                |
| Soft costs as % of hard costs                          | 20%          |               |  |               |                    | Residual value / acre                | <b>(\$279,202)</b>    |                |
| Developer fee as % of hard & soft costs                | 4%           |               |  |               |                    | Residual value / room                | <b>(\$4,653)</b>      |                |
| Prevailing wage as % of hard costs                     | 15%          |               |  |               |                    | <b>Estimated Annual City Revenue</b> |                       |                |
| <b>Construction Financing Assumptions</b>              |              |               | <b>Revenue Assumptions</b>               |               |                    | Transient Occupancy Tax (h)          | \$797,881             |                |
| Loan to cost ratio                                     | 70%          |               | ADR 2015, Airport                        | \$136         |                    | Property Tax (i)                     | \$71,509              |                |
| Total Loan Amount                                      | \$21,490,408 |               | Assumed Year Stabilized Occupancy        | 2021          |                    | Sales Tax (j)                        | \$8,914               |                |
| Loan Fee (points)                                      | 2%           |               | ADR 2021, Airport (2.5% annual growth)   | \$158         |                    |                                      |                       |                |
| Interest Rate  | 7%           |               | Estimated ADR, 110% fair share rate      | \$173         |                    |                                      |                       |                |
| Loan Period (months)                                   | 18           |               | Assumed Occupancy Rate                   | 70%           |                    |                                      |                       |                |
| Drawdown Factor  | 60%          |               | Estimated Rev PAR                        | \$121.44      |                    |                                      |                       |                |
| Capitalization Rate                                    | 7.25%        |               |  |               |                    |                                      |                       |                |

**Notes:**

- (a) Parking Ratios per Long Beach Municipal Code Table 41-1 C  
For hotel, 1 per guestroom, plus parking figured separately for banquet rooms, meeting rooms; For Banquet Halls, 20 per 1,000 GFA
- (b) Per HVS 2015-16 Dev Cost Survey cost for Midscale Class hotels w F&B - \$117,600 per key hard shell costs
- (c) Per RSMeans 2015 - M530 Restaurant - Stucco on Concrete Block with Steel Joists - Adjusted by Long Beach Location Factor of 1.04
- (d) HVS Hotel Development Costs Survey for Midscale Class hotels, 2015-2016, net Land
- (e) Site prep cost includes demolition and landscaping costs.
- (f) Impact and connection fees per Annual and Five Year Reports for Citywide Fees, published March 22, 2016
- (g) Revenue and Expense Ratios adapted from 2016 STR HOST Summary Report for Upscale class, and HOST Report for unbranded 151-room 3 Diamond hotel.
- (h) City transient occupancy tax rate of 12 percent applied to room revenue
- (i) City property tax return rate of 21.66 percent of property tax collected on the capitalized value of the hotel property
- (j) City sales tax return rate of 2 percent applied to Food and Beverage revenue

**Full Service, Upper Upscale LBCC site - mixed use****Operating Revenue & Expense Assumptions****Development Costs****Project Characteristics****Site**

|                                       |         |
|---------------------------------------|---------|
| Site area (Ocean Blvd. Parcel, acres) | 2.33    |
| Site area (sf)                        | 101,300 |
| Tower footprint                       | 25%     |

**Building**

|   |            |
|---|------------|
| Hotel Rooms                                   | 200        |
| Avg. room size (sq. ft.)                      | 425        |
| Net Guest Room (sq. ft.)                      | 85,000     |
| Back of House/Circulation (% of room sq. ft.) | 25% 21,250 |
| Walls/Shafts (% of room sq. ft.)              | 15% 12,750 |
| Hotel (gross sq. ft.)                         | 119,000    |
| Restaurant (seats / gross sq. ft.)            | 2,400      |
| Meeting and Event Space (gross sq. ft.)       | 8,000      |
| Building gross sq. ft. (gsf)                  | 129,400    |

**Parking (a)**

|                                       | <u>Ratio</u> | <u>Spaces</u> |
|---------------------------------------|--------------|---------------|
| Hotel parking (ratio per guest room.) | 0.5          | 100           |
| Meeting Space parking (per 1,000 sf)  | 1            | 8             |
| Restaurants (per 1,000 sf)            | 1            | 2.4           |
| Total Required Parking                |              | 110           |

**Development Cost Assumptions**

|  |              |
|--|--------------|
| Hard costs per sq. ft. of hotel & common space (b)     | \$419        |
| Hard costs per sq. ft. of restaurant/meeting space (c) | \$237        |
| Standard FF&E: % Total Development Costs (d)           | 12%          |
| Parking/space: space / surface (on-site)               | 0 \$5,000    |
| space / structure                                      | 0 \$25,000   |
| space / underground                                    | 110 \$55,000 |
| On and off-site costs per site sq. ft. (e)             | \$10.00      |
| Impact fees (total) (f)                                | \$314,209    |
| Soft costs as % of hard costs                          | 20%          |
| Developer profit as % of hard & soft costs             | 4%           |
| Prevailing wage as % of hard costs                     | 15%          |

**Construction Financing Assumptions**

|                      |              |
|----------------------|--------------|
| Loan to cost ratio   | 70%          |
| Total Loan Amount    | \$65,542,030 |
| Loan Fee (points)    | 2%           |
| Interest Rate        | 7%           |
| Loan Period (months) | 18           |
| Drawdown Factor      | 60%          |
| Capitalization Rate  | 6.50%        |

**Operating Revenue (g)**

|                            | <u>Ratio</u>  | <u>Total</u>        |
|----------------------------|---------------|---------------------|
| Rooms                      | 64.0%         | \$13,208,097        |
| Food & Beverage            | 29.5%         | \$6,086,149         |
| Other Operated Departments | 3.6%          | \$748,903           |
| Misc. Income               | 2.9%          | \$590,868           |
| <b>Total Revenue</b>       | <b>100.0%</b> | <b>\$20,634,016</b> |

**Departmental Expenses**

|                                    |              |                    |
|------------------------------------|--------------|--------------------|
| Rooms                              | 25.8%        | \$3,407,352        |
| Food & Beverage                    | 68.9%        | \$4,190,717        |
| Other Operated Departments         | 64.8%        | \$485,430          |
| <b>Total Departmental Expenses</b> | <b>39.2%</b> | <b>\$8,083,498</b> |

**Undistributed Expenses**

|                                  |              |                    |
|----------------------------------|--------------|--------------------|
| Administrative & General         | 7.5%         | \$1,548,521        |
| Marketing                        | 7.2%         | \$1,489,274        |
| Franchise Fees                   | 1.2%         | \$238,050          |
| Property Operation & Maintenance | 4.2%         | \$858,435          |
| Utilities                        | 3.3%         | \$672,876          |
| <b>Total</b>                     | <b>23.3%</b> | <b>\$4,807,156</b> |

**Gross Operating Profit****\$7,743,362****Fixed Expenses**

|  |              |                    |
|--|--------------|--------------------|
| Management Fees                            | 3.0%         | \$619,020          |
| Insurance                                  | 1.0%         | \$206,340          |
| Property and Other Tax (% Total Dev Costs) | 1.2%         | \$1,233,801        |
| Reserve for Replacement                    | 5.0%         | \$1,031,701        |
| <b>Total</b>                               | <b>10.2%</b> | <b>\$3,090,862</b> |

**Net Operating Income****\$4,652,500****Revenue Assumptions**

|  |          |
|--|----------|
| ADR 2015, Upper Upscale                  | \$165    |
| Assumed Year Stabilized Occupancy        | 2023     |
| ADR 2023, Upper Upscale (2.5% annual gro | \$201    |
| Estimated ADR, 120% fair share rate      | \$241    |
| Assumed Occupancy Rate                   | 75%      |
| Estimated Rev PAR                        | \$180.93 |

**Hard Costs**

|                                  |                     | <u>per key</u>   |
|----------------------------------|---------------------|------------------|
| Building Hard Construction Costs | \$52,322,803        | \$261,614        |
| Parking Costs                    | \$6,072,000         |                  |
| Demolition and Site Costs        | \$253,250           |                  |
| <b>Subtotal</b>                  | <b>\$67,445,261</b> | <b>\$337,226</b> |

**FF&E Costs****\$12,382,950** **\$61,915****Soft Costs**

|                            |                     |
|----------------------------|---------------------|
| Soft Costs                 | \$13,489,052        |
| Impact and Connection Fees | \$314,209           |
| <b>Subtotal</b>            | <b>\$13,803,261</b> |

**Total Construction Costs****\$93,631,472** **\$468,157****Financing Costs**

|                      |                    |
|----------------------|--------------------|
| Financing - Interest | \$4,129,148        |
| Financing - Points   | \$1,310,841        |
| <b>Subtotal</b>      | <b>\$5,439,989</b> |

**Developer Fee****\$3,745,259****Total Development Costs****\$102,816,719** **\$514,084****Residual Land Value Analysis****Projected Income**

|                            |                |
|----------------------------|----------------|
| Gross Hotel Revenues       | \$20,634,016   |
| Less Expenses              | (\$15,981,517) |
| Net Operating Income (NOI) | \$4,652,500    |

**Development Feasibility**

|                        |                 |
|------------------------|-----------------|
| Capitalized Value      | \$71,576,920    |
| Less Development Costs | (\$102,816,719) |
| Residual Land Value    | (\$31,239,799)  |
| Residual value / room  | (\$156,199)     |

**Estimated Annual City Revenue**

|                             |             |
|-----------------------------|-------------|
| Transient Occupancy Tax (h) | \$1,584,972 |
| Property Tax (i)            | \$155,036   |
| Sales Tax (j)               | \$121,723   |

**Notes:**

- (a) Parking Ratios per City of Long Beach Downtown Plan  
<http://www.lbds.info/civica/filebank/blobdload.asp?BlobID=5997>
- (b) Per HVS 2015-16 Dev Cost Survey cost for Luxury Class hotels - \$249,300 per key hard shell costs
- (c) Per RSMeans 2015 - M530 Restaurant - Stucco on Concrete Block with Steel Joists
- (d) HVS Hotel Development Costs Survey for Upper-Upscale Class hotels, 2016, net land
- (e) Site prep cost includes demolition and landscaping costs.
- (f) Impact and connection fees per Annual and Five Year Reports for Citywide Fees, published March 22, 2016
- (g) Revenue and Expense Ratios adapted from 2016 STR HOST Summary Report for Upper Upscale class hotels
- (h) City transient occupancy tax rate of 12 percent applied to room revenue
- (i) City property tax return rate of 21.66 percent of property tax collected on the capitalized value of the hotel property
- (j) City sales tax return rate of 2 percent applied to Food and Beverage revenue

## Full Service, Upper Upscale LBCC site - standalone

### Project Characteristics

|                                       |        |
|---------------------------------------|--------|
| <b>Site</b>                           |        |
| Site area (Ocean Blvd. Parcel, acres) | 2.33   |
| Hotel Footprint (% total)             | 33%    |
| Hotel Portion Footprint (sf)          | 33,429 |

### Building

|   |            |
|---|------------|
| Hotel Rooms                                   | 125        |
| Avg. room size (sq. ft.)                      | 425        |
| Net Guest Room (sq. ft.)                      | 53,125     |
| Back of House/Circulation (% of room sq. ft.) | 25% 13,281 |
| Walls/Shafts (% of room sq. ft.)              | 15% 7,969  |
| Hotel (gross sq. ft.)                         | 74,375     |
| Restaurant (seats / gross sq. ft.)            | 2,400      |
| Meeting and Event Space (gross sq. ft.)       | 5,000      |
| Building gross sq. ft. (gsf)                  | 81,775     |

### Parking (a)

|                                       |              |               |
|---------------------------------------|--------------|---------------|
|                                       | <u>Ratio</u> | <u>Spaces</u> |
| Hotel parking (ratio per guest room.) | 0.5          | 63            |
| Meeting Space parking (per 1,000 sf)  | 1            | 5             |
| Restaurants (per 1,000 sf)            | 1            | 2.4           |
| Total Required Parking                |              | 70            |

### Development Cost Assumptions

|  |             |
|--|-------------|
| Hard costs per sq. ft. of hotel & common space (b)     | \$419       |
| Hard costs per sq. ft. of restaurant/meeting space (c) | \$237       |
| Standard FF&E: % Total Development Costs (d)           | 12%         |
| Parking/space: space / surface (on-site)               | 0 \$5,000   |
| space / structure                                      | 70 \$25,000 |
| space / underground                                    | 0 \$55,000  |
| On and off-site costs per site sq. ft. (e)             | \$10.00     |
| Impact fees (total) (f)                                | \$197,522   |
| Soft costs as % of hard costs                          | 20%         |
| Developer profit as % of hard & soft costs             | 4%          |
| Prevailing wage as % of hard costs                     | 15%         |

### Construction Financing Assumptions

|                      |              |
|----------------------|--------------|
| Loan to cost ratio   | 70%          |
| Total Loan Amount    | \$39,117,486 |
| Loan Fee (points)    | 2%           |
| Interest Rate        | 7%           |
| Loan Period (months) | 18           |
| Drawdown Factor      | 60%          |
| Capitalization Rate  | 6.50%        |

## Operating Revenue & Expense Assumptions

### Operating Revenue (g)

|                            |               |                     |
|----------------------------|---------------|---------------------|
|                            | <u>Ratio</u>  | <u>Total</u>        |
| Rooms                      | 64.0%         | \$7,567,139         |
| Food & Beverage            | 29.5%         | \$3,486,856         |
| Other Operated Departments | 3.6%          | \$429,059           |
| Misc. Income               | 2.9%          | \$338,518           |
| <b>Total Revenue</b>       | <b>100.0%</b> | <b>\$11,821,572</b> |

### Departmental Expenses

|                                    |              |                    |
|------------------------------------|--------------|--------------------|
| Rooms                              | 25.8%        | \$1,952,129        |
| Food & Beverage                    | 68.9%        | \$2,400,931        |
| Other Operated Departments         | 64.8%        | \$278,111          |
| <b>Total Departmental Expenses</b> | <b>39.2%</b> | <b>\$4,631,171</b> |

### Undistributed Expenses

|                                  |              |                    |
|----------------------------------|--------------|--------------------|
| Administrative & General         | 7.5%         | \$887,173          |
| Marketing                        | 7.2%         | \$853,230          |
| Franchise Fees                   | 1.2%         | \$136,383          |
| Property Operation & Maintenance | 4.2%         | \$491,812          |
| Utilities                        | 3.3%         | \$385,502          |
| <b>Total</b>                     | <b>23.3%</b> | <b>\$2,754,100</b> |

### Gross Operating Profit

\$4,436,301

### Fixed Expenses

|  |              |                    |
|--|--------------|--------------------|
| Management Fees                            | 3.0%         | \$354,647          |
| Insurance                                  | 1.0%         | \$118,216          |
| Property and Other Tax (% Total Dev Costs) | 1.2%         | \$736,370          |
| Reserve for Replacement                    | 5.0%         | \$591,079          |
| <b>Total</b>                               | <b>10.2%</b> | <b>\$1,800,311</b> |

### Net Operating Income

\$2,635,990

### Revenue Assumptions

|   |          |
|---|----------|
| ADR 2015, Upper Upscale                 | \$165    |
| Assumed Year Stabilized Occupancy       | 2023     |
| ADR 2023, Upper Upscale (2.5% annual gr | \$201    |
| Estimated ADR, 110% fair share rate     | \$221    |
| Assumed Occupancy Rate                  | 75%      |
| <i>Estimated Rev PAR</i>                | \$165.86 |

## Development Costs

### Hard Costs

|                                  |                     |                |
|----------------------------------|---------------------|----------------|
|                                  |                     | <u>per key</u> |
| Building Hard Construction Costs | \$32,914,879        | \$263,319      |
| Parking Costs                    | \$1,747,500         |                |
| Demolition and Site Costs        | \$334,290           |                |
| <b>Subtotal</b>                  | <b>\$40,246,170</b> | \$321,969      |

### FF&E Costs

\$7,389,197 \$59,114

### Soft Costs

|                            |                    |
|----------------------------|--------------------|
| Soft Costs                 | \$8,049,234        |
| Impact and Connection Fees | \$197,522          |
| <b>Subtotal</b>            | <b>\$8,246,756</b> |

\$65,974

### Total Construction Costs

\$55,882,123 \$447,057

### Financing Costs

|                      |                    |
|----------------------|--------------------|
| Financing - Interest | \$2,464,402        |
| Financing - Points   | \$782,350          |
| <b>Subtotal</b>      | <b>\$3,246,751</b> |

### Developer Fee

\$2,235,285

### Total Development Costs

\$61,364,159 \$490,913

## Residual Land Value Analysis

### Projected Income

|                            |               |
|----------------------------|---------------|
| Gross Hotel Revenues       | \$11,821,572  |
| Less Expenses              | (\$9,185,582) |
| Net Operating Income (NOI) | \$2,635,990   |

### Development Feasibility

|                        |                |
|------------------------|----------------|
| Capitalized Value      | \$40,553,688   |
| Less Development Costs | (\$61,364,159) |
| Residual Land Value    | (\$20,810,471) |
| Residual value / acre  | (\$8,948,708)  |
| Residual value / room  | (\$166,484)    |

### Estimated Annual City Revenue

|                             |           |
|-----------------------------|-----------|
| Transient Occupancy Tax (h) | \$908,057 |
| Property Tax (i)            | \$87,839  |
| Sales Tax (j)               | \$69,737  |

### Notes:

- (a) Parking Ratios per City of Long Beach Downtown Plan  
<http://www.lbds.info/civica/filebank/blobdload.asp?BlobID=5997>
- (b) Per HVS 2015-16 Dev Cost Survey cost for Luxury Class hotels - \$249,300 per key hard shell costs
- (c) Per RSMeans 2015 - M530 Restaurant - Stucco on Concrete Block with Steel Joists
- (d) HVS Hotel Development Costs Survey for Upper-Upscale Class hotels, 2016, net land
- (e) Site prep cost includes demolition and landscaping costs.
- (f) Impact and connection fees per Annual and Five Year Reports for Citywide Fees, published March 22, 2016
- (g) Revenue and Expense Ratios adapted from 2016 STR HOST Summary Report for Upper Upscale class hotels
- (h) City transient occupancy tax rate of 12 percent applied to room revenue
- (i) City property tax return rate of 21.66 percent of property tax collected on the capitalized value of the hotel property
- (j) City sales tax return rate of 2 percent applied to Food and Beverage revenue



| Adaptive Reuse 210 E Ocean - The Breakers              |         |              | Operating Revenue & Expense Assumptions     |                 |                     | Development Costs                   |                     |           |
|--|---------|--------------|---|-----------------|---------------------|-------------------------------------|---------------------|-----------|
| <b>Project Characteristics</b>                         |         |              | <b>Operating Revenue (g)</b>                |                 |                     | <b>Hard Costs</b>                   |                     |           |
| <b>Site</b>  |         |              |   | <b>Ratio</b>    | <b>Total</b>        | <b>Per Key</b>                      |                     |           |
| Building Size (sq. ft.) (a)                            | 134,523 |              | Rooms                                       | 80.0%           | \$12,513,827        | Building Renovation Costs           | \$28,774,298        |           |
| Year Built   | 1923    |              | Food & Beverage                             | 18.0%           | \$2,815,611         | <b>Subtotal</b>                     | <b>\$28,774,298</b> | \$118,413 |
| Site Area (sf)   | 21,344  |              | Other Operating Departments                 | 2.0%            | \$312,846           | <b>FF&amp;E Costs</b>               | <b>\$6,804,000</b>  | \$28,000  |
|  |         |              | <b>Total Revenue</b>                        | <b>100.0%</b>   | <b>\$15,642,284</b> |                                     |                     |           |
| <b>Building</b>  |         |              | <b>Departmental Expenses</b>                |                 |                     | <b>Soft Costs</b>                   |                     |           |
| Hotel Rooms (b)  | 243     |              | Rooms                                       | 23.3%           | \$2,916,064         | Soft Costs                          | \$8,056,804         |           |
| Avg. room size, net (sq. ft.)                          | 400     |              | Food & Beverage                             | 77.0%           | \$2,168,175         | Impact Fees                         | \$350,900           |           |
| Net Guest Room (sq. ft.)                               | 97,200  |              | Minor Operating Departments                 | 60.9%           | \$190,489           | <b>Subtotal</b>                     | <b>\$8,407,704</b>  | \$34,600  |
| Back of House/Circulation (% of room sq. ft.)          | 25%     | 24,300       | <b>Total Departmental Expenses</b>          | <b>33.7%</b>    | <b>\$5,274,728</b>  |                                     |                     |           |
| Hotel (gross sq. ft.)                                  | 121,500 |              |   |                 |                     | <b>Contingency</b>                  | <b>\$4,398,600</b>  |           |
| Restaurant (seats / gross sq. ft.) (c)                 | 4,500   |              | <b>Undistributed Expenses</b>               |                 |                     | <b>Total Construction Costs</b>     | <b>\$48,384,602</b> |           |
| Meeting and Event Space (gross sq. ft.) (c)            | 6,900   |              | Administrative & General                    | 8.4%            | \$1,320,663         |                                     |                     |           |
| Building gross sq. ft. (gsf)                           | 132,900 |              | Marketing                                   | 5.9%            | \$930,161           | <b>Financing Costs</b>              |                     |           |
|  |         |              | Franchise Fees                              | 4.1%            | \$634,287           | Financing - Interest                | \$2,133,761         |           |
| <b>Parking (d)</b>                                     |         |              | Property Operation & Maintenance            | 4.3%            | \$677,772           | Financing - Points                  | \$677,384           |           |
| Hotel parking (ratio per guest room.)                  | Ratio   | Spaces       | Utilities                                   | 3.7%            | \$585,954           | <b>Subtotal</b>                     | <b>\$2,811,145</b>  |           |
| Total Required Parking                                 | 0.75    | N/A          | <b>Total</b>                                | <b>26.5%</b>    | <b>\$4,148,837</b>  | <b>Developer Fee</b>                | <b>\$1,935,384</b>  |           |
|  |         |              |   |                 |                     | <b>Total Development Costs</b>      | <b>\$53,131,132</b> | \$218,647 |
| <b>Development Cost Assumptions</b>                    |         |              | <b>Gross Operating Profit</b>               |                 |                     |                                     |                     |           |
| Hard costs per sq. ft. of hotel space (e)              |         | \$188        |   |                 | <b>\$6,218,719</b>  |                                     |                     |           |
| Hard costs per sq. ft. of restaurant/meeting space (e) |         | \$189        | <b>Fixed Expenses</b>                       |                 |                     | <b>Residual Land Value Analysis</b> |                     |           |
| Standard FF&E, per key                                 |         | \$28,000     | Management Fees                             | 3.0%            | \$469,269           | <b>Projected Income</b>             |                     |           |
| Impact fees (total) (f)                                |         | \$350,900    | Insurance                                   | 1.0%            | \$156,423           | Gross Hotel Revenues                | \$15,642,284        |           |
| Soft costs as % of hard costs                          |         | 28%          | Property and Other Tax (% Total Dev Cos)    | 1.2%            | \$637,574           | Less Expenses                       | (\$11,468,944)      |           |
| Developer fee as % of hard & soft costs                |         | 4%           | Reserve for Replacement                     | 5.0%            | \$782,114           | Net Operating Income (NOI)          | \$4,173,340         |           |
| Prevailing wage as % of hard costs                     |         | 15%          | <b>Total</b>                                | <b>10.2%</b>    | <b>\$2,045,379</b>  |                                     |                     |           |
| Contingency as % of total hard and soft costs          |         | 10%          |   |                 |                     |                                     |                     |           |
| <b>Construction Financing Assumptions</b>              |         |              | <b>Net Operating Income</b>                 |                 |                     |                                     |                     |           |
| Loan to cost ratio                                     |         | 70%          |   |                 | <b>\$4,173,340</b>  |                                     |                     |           |
| Total Loan Amount                                      |         | \$33,869,221 | <b>Revenue Assumptions</b>                  |                 |                     | Development Feasibility             |                     |           |
| Loan Fee (points)                                      |         | 2%           | ADR 2015, DT Waterfront                     | \$158           |                     | Capitalized Value                   | \$59,619,138        |           |
| Interest Rate  |         | 7.0%         | Assumed Year Stabilized Occupancy           | 2021            |                     | Less Development Costs              | (\$53,131,132)      |           |
| Loan Period (months)                                   |         | 18           | ADR 2021 estimate (2.5% annual growth)      | \$183           |                     | Residual Land Value                 | \$6,488,007         |           |
| Drawdown Factor  |         | 60%          | <b>Estimated ADR, 110% penetration rate</b> | <b>\$202</b>    |                     | Residual value / sq. ft.            | \$148.94            |           |
| Capitalization Rate                                    |         | 7.00%        | Assumed Occupancy Rate                      | 70%             |                     | Residual value /room                | \$26,699.62         |           |
|  |         |              | <i>Estimated Rev PAR</i>                    | <i>\$141.09</i> |                     |                                     |                     |           |

Notes:

- (a) Total building size, height, and age per Los Angeles County Office of the Assessor website
- (b) 243 Existing Units per Los Angeles County Assessor
- (c) Existing Restaurant and Meeting Rooms size estimated from corporate Event Space website for the Sky Room, Empire Grand Ballroom, and associated breakout rooms
- (d) Parking Ratios per Downtown Shoreline Plan PD-6, Long Beach Municipal Code  
*Reuse of existing buildings shall not require parking in excess of what currently exists*
- (e) Per HVS 2015-16 Dev Cost survey @ \$117,600 per key; applied to Net Guest Room sf and discounted by 80 percent for rehabilitation  
Restaurant shell costs \$237/sf per RS Means 2015; discounted by 80 percent for rehabilitation  
FF&E - per ket
- (e) Site prep cost includes landscaping costs.
- (f) Impact and connection fees per Annual and Five Year Reports for Citywide Fees, published March 22, 2016
- (g) Revenue and Operating ratios adapted from blend of STR Host Report for Upper Upscale and Upscale hotels



| Adaptive Reuse 235 E Broadway                 |              |               | Operating Revenue & Expense Assumptions    |               |                     | Development Costs                   |                     |                |
|---|--------------|---------------|--|---------------|---------------------|-------------------------------------|---------------------|----------------|
| <b>Project Characteristics</b>                |              |               | <b>Operating Revenue (g)</b>               |               |                     | <b>Hard Costs</b>                   |                     |                |
| <b>Site</b>                                   |              |               |  | <u>Ratio</u>  | <u>Total</u>        |                                     |                     | <u>per key</u> |
| Existing Building Size (sq. ft.) (a)          | 104,754      |               | Rooms                                      | 80.0%         | \$10,814,418        | Building Renovation Costs           | \$30,453,912        |                |
| Year Built                                    | 1923         |               | Food & Beverage                            | 18.0%         | \$2,433,244         | <b>Subtotal</b>                     | <b>\$30,453,912</b> | \$145,019      |
| Number of Stories                             | 12           |               | Other Operating Departments                | 2.0%          | \$270,360           |                                     |                     |                |
| Site Area (sf)                                | 24,829       |               | <b>Total Revenue</b>                       | <b>100.0%</b> | <b>\$13,518,023</b> | <b>FF&amp;E Costs</b>               | <b>\$5,627,883</b>  | \$26,799       |
| <b>Building</b>                               |              |               | <b>Departmental Expenses</b>               |               |                     | <b>Soft Costs</b>                   |                     |                |
| Hotel Rooms (b)                               | 210          |               | Rooms                                      | 23.3%         | \$2,520,055         | Soft Costs                          | \$6,090,782         |                |
| Avg. room size, net (sq. ft.)                 | 373          |               | Food & Beverage                            | 77.0%         | \$1,873,731         | Impact Fees                         | \$290,059           |                |
| Net Guest Room (sq. ft.)                      | 78,330       |               | Minor Operating Departments                | 60.9%         | \$164,620           | <b>Subtotal</b>                     | <b>\$6,380,842</b>  | \$30,385       |
| Back of House/Circulation (% of room sq. ft.) | 25%          | 19,583        | <b>Total Departmental Expenses</b>         | <b>33.7%</b>  | <b>\$4,558,407</b>  | <b>Contingency</b>                  | <b>\$4,246,264</b>  |                |
| Hotel (gross sq. ft.)                         |              | 97,913        | <b>Undistributed Expenses</b>              |               |                     | <b>Total Construction Costs</b>     |                     |                |
| Restaurant (seats / gross sq. ft.) (b)        |              | 1,500         | Administrative & General                   | 8.4%          | \$1,141,313         |                                     | <b>\$46,708,901</b> | \$222,423      |
| Meeting and Event Space (gross sq. ft.) (b)   |              | 5,047         | Marketing                                  | 5.9%          | \$803,843           | <b>Financing Costs</b>              |                     |                |
| Building gross sq. ft. (gsf)                  |              | 104,460       | Franchise Fees                             | 4.1%          | \$548,150           | Financing - Interest                | \$2,059,863         |                |
| <b>Parking (d)</b>                            |              |               | Property Operation & Maintenance           | 4.3%          | \$585,729           | Financing - Points                  | \$653,925           |                |
| Hotel parking (ratio per guest room.)         | <u>Ratio</u> | <u>Spaces</u> | Utilities                                  | 3.7%          | \$506,380           | <b>Subtotal</b>                     | <b>\$2,713,787</b>  |                |
| Total Required Parking                        | 0.75         | N/A           | <b>Total</b>                               | <b>26.5%</b>  | <b>\$3,585,415</b>  | <b>Developer Fee</b>                | <b>\$1,868,356</b>  |                |
| <b>Development Cost Assumptions</b>           |              |               | <b>Gross Operating Profit</b>              |               |                     | <b>Total Development Costs</b>      |                     |                |
| Construction and Renovation Costs, per sf (e) |              | \$312         |  |               | <b>\$5,374,201</b>  |                                     | <b>\$51,291,044</b> | \$244,243      |
| Standard FF&E: % Total Development Costs (d)  |              | 11%           | <b>Fixed Expenses</b>                      |               |                     | <b>Residual Land Value Analysis</b> |                     |                |
| Impact fees (total) (f)                       |              | \$290,059     | Management Fees                            | 3.0%          | \$405,541           | <b>Projected Income</b>             |                     |                |
| Soft costs as % of hard costs                 |              | 20%           | Insurance                                  | 1.0%          | \$135,180           | Gross Hotel Revenues                | \$13,518,023        |                |
| Developer fee as % of hard & soft costs       |              | 4%            | Property and Other Tax (% Total Dev Costs) | 1.2%          | \$615,493           | Less Expenses                       | (\$9,975,936)       |                |
| Prevailing wage as % of hard costs            |              | 15%           | Reserve for Replacement                    | 5.0%          | \$675,901           | Net Operating Income (NOI)          | \$3,542,087         |                |
| Contingency as % of total hard and soft costs |              | 10%           | <b>Total</b>                               | <b>10.2%</b>  | <b>\$1,832,115</b>  | Development Feasibility             |                     |                |
| <b>Construction Financing Assumptions</b>     |              |               | <b>Net Operating Income</b>                |               |                     | Capitalized Value                   | \$50,601,241        |                |
| Loan to cost ratio                            |              | 70%           |  |               | <b>\$3,542,087</b>  | Less Development Costs              | (\$51,291,044)      |                |
| Total Loan Amount                             |              | \$32,696,231  | <b>Revenue Assumptions</b>                 |               |                     | Residual Land Value                 | -\$689,804          |                |
| Loan Fee (points)                             |              | 2%            | ADR 2015, DT Waterfront                    | \$158         |                     | Residual value / sq. ft.            | -\$16               |                |
| Interest Rate                                 |              | 7.0%          | Assumed Year Stabilized Occupancy          | 2021          |                     | Residual value / room               | -\$3,285            |                |
| Loan Period (months)                          |              | 18            | ADR 2021 estimate (2.5% annual growth)     | \$174         |                     |                                     |                     |                |
| Drawdown Factor                               |              | 60%           | Estimated ADR, 110% penetration rate       | \$202         |                     |                                     |                     |                |
| Capitalization Rate                           |              | 7.00%         | Assumed Occupancy Rate                     | 70%           |                     |                                     |                     |                |
|   |              |               | Estimated Rev PAR                          | \$141.09      |                     |                                     |                     |                |

Notes:

- (a) Total building size, height, and age per Los Angeles County Office of the Assessor website and Loopnet
- (a) Number of potential rooms based on building size; reserving dedicated level for Meeting Space and Restaurant
- (c) Existing Restaurant and Meeting Rooms size estimated from footprint of one dedicated level, minus circulation of 25 percent
- (d) Parking Ratios per Downtown Shoreline Plan PD-6, Long Beach Municipal Code  
*Reuse of existing buildings shall not require parking in excess of what currently exists*
- (e) Per Cost Estimates for similar office-to-hotel conversion of Ocean Center Building  
FF&E = Furnitures, fixtures, and equipment, including telephone systems, laundry facilities, signage, etc.
- (e) Site prep cost includes landscaping costs.
- (f) Impact and connection fees per Annual and Five Year Reports for Citywide Fees, published March 22, 2016
- (g) Revenue and Operating ratios adapted from blend of STR Host Report for Upper Upscale and Upscale hotels

## APPENDIX B: HOTEL INCENTIVE PROGRAMS

Appendix B: Hotel Incentive Programs in California

| Jurisdiction                             | Eligible Projects                                | Required Analysis  | Max. Share of Tax Rebate (1)         | Max. Rebate Term length | Maximum Amount of Rebate                    | Transient Occupancy Tax (TOT) Rate             | Implementation               | Policy Re-evaluation Period  | Public Benefit Requirements  |
|--|--|--|--------------------------------------|-------------------------|---|--|------------------------------|--|--|
| Anaheim<br>Adopted June 16, 2015         | New 4-diamond hotels                             | Developer to indicate that shell costs exceed minimum requirements (\$225,000 in 2015) and \$30,000 per key for FF&E costs<br>After COC, Developer submits independently prepared accounting opinion of costs and 4-diamond operation<br>City prepares Sec. 53083 report | 70% of incremental TOT               | 20 years                | No maximum                                  | 15.0%  | Operating Covenant Agreement | Annual administrative review by City Manager<br><br>Incentive program terminates in 5 years without extension by Council | Prevailing Wage, Good Faith Efforts for local hiring                           |
|  | Existing hotels renovating to 4-diamond standard | Developer to indicate that renovation costs exceed minimum requirements (\$100,000 in 2015) and \$30,000 per key for FF&E costs<br>City prepares Sec. 53083 report   | 50% of incremental TOT               |                         |   |  |                              |  |  |
| Cathedral City<br>Adopted August 6, 2012 | New hotels                                       | Tax Sharing Report to be completed by City staff or consultant engaged by the City, paid by the applicant unless waived by City. Report to include existing and projected TOT, quality of services, total project cost, necessity for public assistance.                 | 75% of incremental TOT               | 10 years                | Not fixed, but can be set by Council action | 12.0%  | Operating Covenant Agreement | none specified   | Discounts for City residents on rooms, golf, food, and spa servcies.           |
|  | Existing hotels undergoing renovation            |  | 50% of incremental TOT               |                         |   |  |                              |  |  |
| Palm Springs<br>Adopted 2008             | First Class, new                                 | Applicant to provide independent verification of first class service   | 75% of incremental adjusted tax rate | 30 years                | \$50 million                                | "Adjusted tax rates":                          | Operating Covenant Agreement | none specified   | Participate in Convention Center committable rooms program and shuttle service |
|  | Comfort Hotel, new, with 125+ rooms              | none specified   | 50% of incremental adjusted tax rate | 20 years                | \$25 million                                | 10.9% for hotels with less than 125 rooms      |                              |  | If requested, participate in committable rooms program.                        |
|  | Comfort Hotel, new, with 50 to 124 rooms         |  |                                      | 10 years                | \$20 million                                | 12.1% for group meeting hotels with 125+ rooms |                              |  |  |
|  | Comfort Hotel, new, 49 or fewer rooms            |  | \$15 million                         |                         |   |  |                              |  |  |
|  | Existing Hotels                                  |  | 50% of TOT increment after adoption  |                         | \$25 million                                |  |                              |  |  |

|   |   |  |   |               |   |       |  |  |  |
|---|---|--|---|---------------|---|-------|--|--|--|
| <b>Los Angeles</b><br>Initial Proposed<br>August 6, 2013  | Citywide: Hotels new construction three-star or higher with 200+ rooms                                    | Developer to fund City's independent verification of development costs and feasibility gap | Lesser of:<br>25% of total net new fiscal impact, or<br>40% of TOT collections  | 20 years      | Gap as verified by independent analysis | 15.5% | Memorandum of Understanding, Subvention Agreement, and Community Taxing District | Re-evaluate incentive every 5 years                                    | Project Labor Agreement (PLA) for construction and permanent jobs                                  |
|   | Convention Center (within 10-minute walk): Hotels new construction with 300+ rooms                        |  | Lesser of:<br>50% of net new site-specific tax revenue (City's portion of property, sales, business, utility, and TOT), or<br>100% of TOT collections |               |   |       |  | Re-evaluate incentive once 7,300 room are built near Convention Center | PLA, and Room Block Agreement for 70% of rooms for national convention business                    |
|   | Hollywood: Hotels New construction with 300+ rooms  |  | Lesser of:<br>40% of total net new fisacl impact, or<br>50% of TOT collections  |               |   |       |  | Re-evaluate incentive every 5 years                                    | PLA  |
|   | LAX Gateway District: Renovating exsitin hotels with 200+ rooms   |  | Lesser of:<br>25% of net new fiscal impact, or<br>50% of TOT collections  | 15 years      |   |       |  | Incentive to sunset after five years                                   | PLA, and required pedestrian improvements and commercial services on ground floor                  |
| <b>Los Angeles</b><br>Revised<br>Proposed<br>Feb. 5, 2015 | Citywide new construction, three-star or higher with 300+ rooms   | Developer to fund City's independent verification of development costs and feasibility gap | Up to 50% of net new site specific tax revenues   | not specified | Gap as verified by independent analysis | 15.5% | Memorandum of Understanding, Subvention Agreement, and Community Taxing District | Re-evaluate incentive every 5 years                                    | PLA, and room block agreement if near Convention Center, and ground floor improvements if near LAX |
|   | Citywide adaptive reuse hotel projects with 150+ room maintained at three-star quality                    |  |   |               |   |       |  |  |  |
|   | Citywide renovations of existing hotels with 150+ rooms maintained at three-star quality or above         |  |   |               |   |       |  |  |  |
| <b>Rancho Palos Verdes</b><br>Adopted July 7, 2009        | First Class (three-star or diamond) hotel with 250+ rooms, food and beverage, and 20,000 SF meeting space | Applicant to pay for City's due dilligence costs   | 80% of incremental TOT  | 34 months     | \$8.2 million                           | 10.0% | Operating Covenant Agreement   | none specified   | none specified   |
| <b>Santa Barbara County</b><br>Adopted July 10, 2012      | New first class hotels  | Applicant to provide independent verification of first class service                       | 70% of incremental TOT, less property assessed value offset   | 15 years      | No maximum                              | 10.0% | Implementation Agreement   | Program to sunset in 5 years   | Prevailing Wage  |
|   | Existing hotels renovating to enhance rates and level of service  | none specified   | 50% of incremental TOT, less property assessed value offset   | 10 years      |   |       |  |  |  |

Notes:  
(1) Maximum rebate is the lesser of the "Maximum Share" over the "Term Length" or the "Maximum Amount"

## APPENDIX C: SUMMARY OF PROGRAM CHARACTERISTICS

APPENDIX C: Summary of Incentive Program Characteristics

| Jurisdiction         | Eligible Projects |                                   |                 |                    |                 |             | Rebate Terms        |                    | Administrative               |                                     |                                 |                | Public Benefits                 |                    | Labor Benefits  |                         |            |
|----------------------|-------------------|-----------------------------------|-----------------|--------------------|-----------------|-------------|---------------------|--------------------|------------------------------|-------------------------------------|---------------------------------|----------------|---------------------------------|--------------------|-----------------|-------------------------|------------|
|                      | New Hotels        | Existing Hotels with Improvements | Existing Hotels | Service Level Min. | Room Count Min. | Geog. Focus | Defined Term Length | Max. Rebate Amount | Applicant Funds Gap Analysis | Applicant Funds Service Level Audit | Periodic Program Review Program | Program Sunset | Convention Center participation | Resident Discounts | Prevailing Wage | Project Labor Agreement | Local Hire |
| Anaheim              | ✓                 | ✓                                 |                 | ✓                  |                 |             | ✓                   |                    | ✓                            | ✓                                   | ✓                               | ✓              |                                 |                    | ✓               |                         | ✓          |
| Cathedral City       | ✓                 | ✓                                 |                 |                    |                 |             | ✓                   |                    | ✓                            |                                     |                                 |                |                                 | ✓                  |                 |                         |            |
| Los Angeles original | ✓                 | ✓                                 |                 | ✓                  | ✓               | ✓           | ✓                   |                    | ✓                            |                                     | ✓                               | ✓              | ✓                               |                    | ✓               | ✓                       |            |
| Los Angeles revised  | ✓                 | ✓                                 |                 | ✓                  | ✓               |             |                     |                    | ✓                            |                                     | ✓                               |                | ✓                               |                    | ✓               | ✓                       |            |
| Palm Springs         | ✓                 | ✓                                 | ✓               | ✓                  | ✓               |             | ✓                   | ✓                  |                              | ✓                                   |                                 |                | ✓                               |                    |                 |                         |            |
| Rancho Palos Verdes  | ✓                 |                                   |                 | ✓                  | ✓               |             | ✓                   | ✓                  | ✓                            |                                     |                                 |                |                                 | ✓                  |                 |                         |            |
| Santa Barbara County | ✓                 | ✓                                 |                 | ✓                  |                 |             | ✓                   |                    |                              | ✓                                   |                                 | ✓              |                                 |                    | ✓               |                         |            |

Source: MR&A and BAE, 2016.