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November 9, 2015

Mr. Bruce Moe
Finance Director
City of Manhattan Beach
1400 Highland Avenue
Manhattan Beach, California 90266

Dear Mr. Moe

In accordance with our agreement, we have completed an analysis of potential market demand and prepared a statement of estimated annual operating results for a proposed hotel to be located on Parkview Avenue in the City of Manhattan Beach.

Additionally, we have completed an analysis of future market trends in the community of Manhattan Beach for the next eight years, including an analysis of the impact of potential additions to supply. The fieldwork and data collection for this study were undertaken in September and October of 2015, and this report was compiled in November 2015.

The conclusions reached are based on our present knowledge of the competitive lodging market as of the completion of our fieldwork in October 2015. The following report summarizes our findings and reflects the conclusion of our analysis. As in all studies of this type, the estimated results are based upon competent and efficient management and presume no significant change in the competitive market from that as set forth in this report. Since our results are based on estimates and assumptions that are subject to uncertainty and variation, we do not represent them as results that will actually be achieved.

It is expressly understood that the scope of our study and report thereon do not include the possible impact of zoning or environmental regulations, licensing requirements or other restrictions concerning the project, except where such matters have been brought to our attention and disclosed in the report.

The terms of this engagement are such that we have no obligation to revise this report to reflect events or conditions which occur subsequent to the date of completion of our

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fieldwork; however, we are available to discuss the necessity for revision in view of changes in the economy or market factors which have a material effect on the proposed property.

This report was prepared for your internal use to assist you in analyzing the potential market position of the subject hotel and future of the Manhattan Beach hotel market. This report is subject to the Terms and Conditions presented in the Addenda, as well as to the assumptions presented herein.

We appreciate the opportunity of working on this assignment and look forward to answering any questions you may have regarding our findings and conclusions presented herein.

Sincerely,

PKF Consulting USA | CBRE Hotels

A handwritten signature in blue ink, appearing to read "Bruce Baltin". The signature is fluid and cursive, with a large initial "B" and a long, sweeping underline.

Bruce Baltin
Managing Director

Section I
INTRODUCTION

INTRODUCTION

OVERVIEW OF THE MARKET STUDY

PKF Consulting USA has been retained by the City of Manhattan Beach to perform a study of the potential market demand for a proposed lifestyle hotel to be located on Parkview Avenue in Manhattan Beach, California. This Manhattan Beach development is positioned to capture increased commercial demand from the expansion of “Silicon Beach” across the Los Angeles waterfront cities as well as continued leisure demand.

As a component of this analysis, after we have identified the potential market demand in the Manhattan Beach and overall South Bay and neighboring coastal lodging markets, we have then provided our projections of the occupancy and average daily room rate the proposed subject could reasonably be expected to achieve for its first five years of operation. Given these projections, we have also estimated the subject’s annual operating results including total operating revenues and expenses, net income from operations, and ratio to total revenues for ten years of operation. For the purpose of our analysis, we have assumed the subject would be a good to excellent quality mid-size hotel with 150 guestrooms, and that it would be open and available for occupancy by January 1, 2018.

Subsequently, we have provided an analysis of the Manhattan Beach Hotel market, including our projections of performance over the next eight years considering potential additions to supply. This report represents the culmination of our market research, analysis, and assessments relative to the potential market demand for the proposed hotel.

ASSUMPTIONS USED FOR PROJECTIONS

Our analysis was based on the following set of assumptions:

- The proposed hotel is to be located on the corner of Parkview Avenue and Park Place adjacent to the Manhattan Village Mall in Manhattan Beach, California;
- The proposed hotel will be a high quality hotel and contain a total of 150 rooms;
- The subject will offer facilities and services consistent with its respective quality level;
- The subject will offer meeting and event space;
- The subject will contain a restaurant; and,
- The hotel project will open on January 1, 2018.
- For the purpose of the market analysis: five additional hotels and an expansion of an existing property will enter the market between 2015 and 2021; room counts and opening dates have been estimated.

METHODOLOGY

In conducting the study, we:

- Physically inspected the proposed subject site as well as existing and planned surrounding developments;
- Assessed the impact of the proposed subject’s accessibility, visibility, and location relative to demand generators and overall marketability;
- Analyzed the proposed subject’s site, and prepared recommendations as to the optimal type of hotel to be developed on the site;
- Researched and analyzed current economic and demographic trends in Los Angeles County with a focus on Manhattan Beach and surrounding coastal cities to determine the trends’ impact on future lodging demand within the market;
- Identified the competitive supply of lodging facilities in and around Manhattan Beach;
- Reviewed the historical performance levels for the competitive lodging supply on a composite basis;
- Estimated the anticipated growth in demand for, and supply of, lodging accommodations in the competitive market area;
- Determined the optimum positioning of a hotel to be located at the subject site within the competitive market and prepared a forecast of the potential annual occupancy and average daily rate for the first five years of operation of the proposed subject;
- Prepared a statement of estimated annual operating results for the subject hotel for the ten-year period from January 1, 2018 through December 31, 2027; and,
- Projected hotel revenues in the Manhattan Beach Market over the next eight years, including potential additions to supply.

Several sources were used in compiling the background information and preparing the analysis contained in this report. These resources included *Trends in the Hotel Industry*, published by PKF Consulting; data on the local lodging market gathered through direct interviews with managers of the competitive properties; data provided by sources in the lodging chains with which the competitive properties are affiliated; and economic data on the region from various local governmental and planning entities.

AREA REVIEW

We gathered and analyzed relevant economic, demographic, and development data relative to the greater Los Angeles County and the City of Manhattan Beach. The purpose of this analysis was to ascertain the economic climate in which the proposed subject hotel will operate and create a basis for projecting future economic conditions as they relate to the proposed subject hotel.

MARKET RESEARCH

We have reviewed our database and conducted primary market research relative to the proposed hotel's competitive market and prepared a five-year history of occupancy and average daily rate trends. To obtain data on current conditions, market mix, and likely future results, we conducted primary research in the area including interviews with representatives of the competitive hotels and planning officials. Data on proposed projects was also researched and reviewed to determine the likelihood of future additions to supply.

PREPARATION OF MARKET SUPPLY AND DEMAND ESTIMATES

We analyzed historical growth and the characteristics of each of the principal segments of demand for lodging accommodations and researched the potential additions to supply. Then, using the information gathered in our research, we projected the growth in demand from 2015 to 2022 for the competitive market, and combined the estimated future supply and demand to reach our conclusions of the overall market potential.

SUBJECT OCCUPANCY AND AVERAGE DAILY RATE PROJECTIONS

After completing our estimates of the market area's supply and demand, we estimated the share of the market that the proposed subject hotel should reasonably be expected to capture for its first five years of operation. From this we derived its annual occupancy percentages. After considering the historical average daily rate trends in the market and the projected market position for the proposed hotel, the proposed property's average daily rate was projected from its estimated opening in 2018 through 2022.

ESTIMATED ANNUAL OPERATING RESULTS

Based on our analysis of market demand and the estimated occupancy and average daily room rates for the proposed hotel, we have estimated revenues and expenses for the hotel for its first ten years of operation. These estimates result in a "bottom line" of income before fixed charges of interest, depreciation, amortization, and income taxes.

SUMMARY OF CONCLUSIONS

Based on our existing knowledge of the Manhattan Beach, South Bay, and Greater Los Angeles County hotel markets coupled with our research relative to this assignment, we are of the opinion that an opportunity exists for the development of a high-quality hotel at the subject site. The site's location adjacent to a golf course, mall, and other Manhattan Beach amenities will allow the proposed hotel to not only capture existing leisure demand in the area but also have the potential to generate additional commercial demand. Further, with its newer facilities, the hotel will be well positioned to capture the group and corporate demand in the area that is not currently satisfied by the existing hotel product.

HISTORICAL MARKET PERFORMANCE AND MARKET SHARE ESTIMATES

The subject site is located in Manhattan Beach, California. Located on Parkview Avenue, the area surrounding the site is a highly commercial and leisure driven environment with numerous retail shops as well as tennis courts and a golf course nearby. Due to its Manhattan Beach location, the subject hotel will be competing primarily with the coastal hotel properties in the South Bay area as well as business hotels in neighboring areas such as Torrance and El Segundo. We have analyzed the performance and mix of demand for the hotel properties with which the proposed subject is expected to compete. Considering economic and market indicators, we have estimated the market area's supply of and demand for hotel room nights and have estimated the share of the market that the proposed hotel should reasonably be expected to capture for its first five years of operation. Based upon an analysis of the sources of demand available to the subject property and its estimated competitive position, we have estimated the occupancy percentage and average daily rate that could potentially be achieved in a representative year, in current value dollars, and over the first five years of operation.

We estimate the subject hotel could achieve a stabilized occupancy rate of 80 percent and an average daily rate of \$220.00, in current value (2015) dollars. This places the subject slightly below the average of the competitive market as stabilized in terms of occupancy, which we consider reasonable given the subject's anticipated market positioning and average daily rate. Our projection of average daily rate positions the subject just above that of the competitive market average but comparable with high quality competitive hotels in nearby Redondo Beach, Hermosa Beach, and Marina Del Rey. This is considered reasonable based on the hotel's proposed facilities and amenities. Further, the hotel will be located steps from leisure demand generators such as the Manhattan Village mall and adjacent golf course. In addition, the subject will be the newest hotel in the market and will have a larger room count than the majority of the hotels in the competitive market.

The following table outlines our estimates of occupancy, average daily rate, and the resulting revenue yield for the subject. It should be noted that figures are rounded to the nearest dollar amounts.

Projected Market Performance of the Subject Hotel											
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Occupancy Percentage	Average Daily Rate	Percent Change	REVPAR	Percent Change	Market Penetration	Revenue Yield
2018	54,750	N/A	39,600	N/A	72%	\$240.00	3.0%	\$173.59	N/A	87%	89%
2019	54,750	0.0%	41,600	5.1%	76	248.00	3.0	188.43	8.6%	92	93
2020	54,750	0.0	43,900	5.5	80	255.00	3.0	204.47	8.5	97	99
2021	54,750	0.0	43,900	0.0	80	263.00	3.0	210.88	3.1	97	98
2022	54,750	0.0	43,900	0.0	80	271.00	3.0	217.29	3.0	97	99
CAAG	0.0%		2.6%			3.1%		5.8%			

Source: PKF Consulting USA

The estimates of revenues, costs, and expenses are based on the subject's specific facilities and services and their operational characteristics. As a basis for our projections, we have analyzed the operating results of lodging properties with similar characteristics that are believed to operate with efficient management and proper control of costs and expenses.

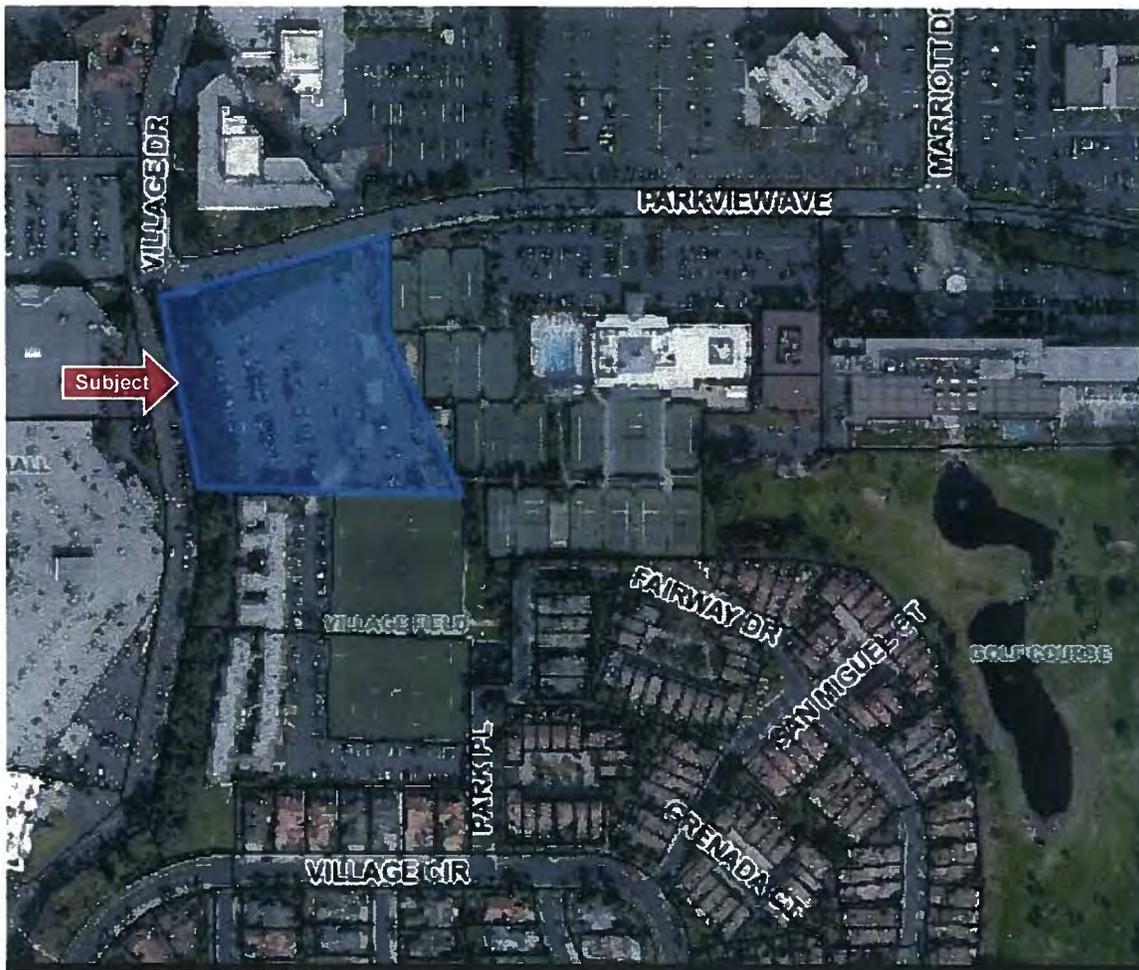
The following table summarizes the estimated operating results for the first ten years of operation for the proposed 150-room hotel to be located on Parkview Avenue in Manhattan Beach.

Summary of Estimated Annual Operating Results			
Year	Total Revenue	Net Operating Income	Ratio to Total Revenues
2018	\$13,811,000	\$2,618,000	19%
2019	15,049,000	3,078,000	20
2020	16,297,000	3,529,000	22
2021	16,801,000	3,652,000	22
2022	17,311,000	3,774,000	22
2023	17,824,000	3,884,000	22
2024	18,343,000	3,992,000	22
2025	18,910,000	4,132,000	22
2026	19,483,000	4,266,000	22
2027	20,060,000	4,391,000	22

Section II
ANALYSIS OF SITE LOCATION AND
FACILITIES RECOMMENDATIONS

ANALYSIS OF SITE LOCATION

The proposed subject site is located on Parkview Avenue in Manhattan Beach, California. The site is currently improved by a parking lot and sits adjacent to the Manhattan Country Club on the northern edge of the city. Additionally, the Manhattan Beach Marriott, with its 25,000 square feet of meeting space, sits east of the country club. The subject site is roughly two miles from the beach, but directly adjacent to the Manhattan Village mall, which includes an Apple Store, Macy's, as well as additional retail and restaurant outlets.



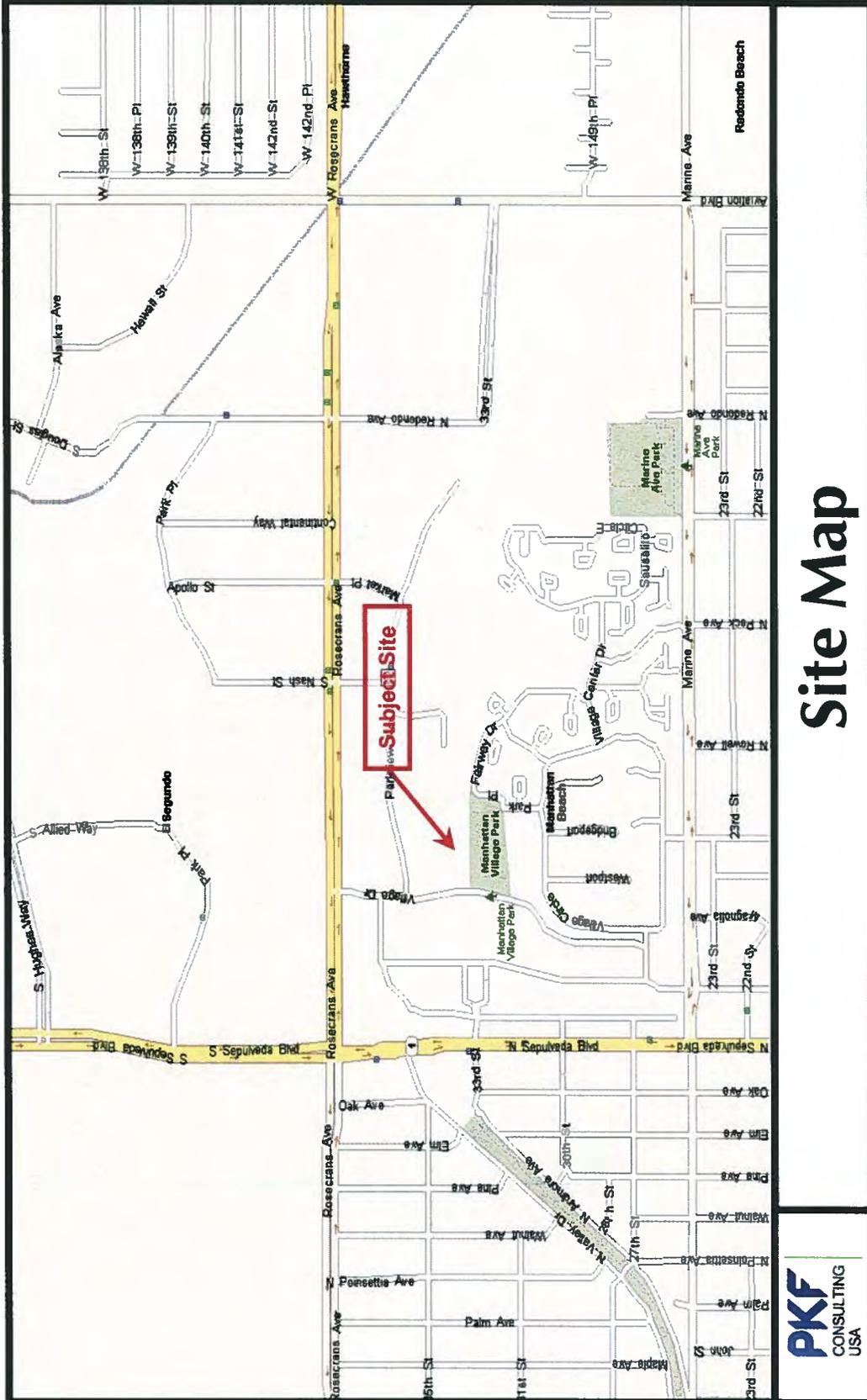
The following sections present more detailed information on the site and its access and location.

LOCATION AND SITE ENVIRONS

The hotel site is situated along Parkview Avenue, which slopes upwards until it intersects with Village Drive, and is below street grade. Uses immediately surrounding the site include:

- North:** The subject site is bounded to the north by Parkview Avenue, followed by Rosecrans Avenue, a major thoroughfare. Further north is the Point, a newly developed dining, entertainment, and shopping plaza in neighboring El Segundo.
- South:** The subject is bounded to the south by the Manhattan Village Field, a public park consisting of a full size soccer field, children’s play area, and restrooms. Beyond the park are mostly residential uses as well as an elementary school. Further south is the city of Redondo Beach.
- East:** The subject is bounded to the east by the Manhattan Country Club, which includes tennis courts, a pool, and golf course. Just east of the Country club is the Manhattan Beach Marriott.
- West:** The subject is bounded to the west by the Manhattan Village Mall, which is situated at street grade above the subject site. Further west is the Manhattan Beach Pier and the Pacific Ocean.

An area map and aerial view illustrating the subject’s location are presented in the following pages.





Aerial View

ACCESS AND VISIBILITY

Primary access to the site will be provided from automobiles. Overall, the subject site has a good location relative to numerous transportation networks and businesses and leisure attractions in the area. Located proximate to Rosecrans Avenue, approximately four miles from Los Angeles International Airport, and providing relatively easy access to the 405 Freeway, the subject site enjoys a good location in order to capture leisure and commercial demand in the area. Primary access to the site from the north is provided via Parkview Avenue. From the 405 Freeway, southbound and northbound travelers head west on Rosecrans Avenue and make a subsequent left onto park way in order to access Parkview Avenue, where the hotel entrance will be. In addition, the 405 Freeway provides north/south access within Los Angeles County, as well as access to Orange County to the south.

Given the hotel's location below street grade, adjacent to a shopping mall that sits above, and a country club to the east, visibility will be limited from major arterials. Proper signage for the subject property will prove to be a necessity. However, although the site does not benefit from superior visibility, due to the positioning of the proposed property, heavy reliance will not be put on drive-by business.

RELATIONSHIP TO AREA AMENITIES AND DEMAND GENERATORS

The subject site is located in between the Manhattan Village Mall and the Manhattan Country Club and is proximate to additional leisure, corporate, and group demand generators in the area. Hotel demand generators in Manhattan Beach and the western portion of the South Bay area include the following:

- Leisure and group travelers visiting the various beaches and other leisure attractions in Los Angeles County, as well as other Southern California attractions;
- Leisure travelers visiting family in the area;
- Corporate travelers doing business in and around Manhattan Beach, and other cities within the South Bay, particularly Torrance, El Segundo, and Redondo Beach. Corporate demand in the area is derived from retail, financial services, aerospace, automobile, information technology, law firms, engineering communications, and bio-science related businesses with a particular focus on a burgeoning technology industry; and,
- Corporate and association groups holding meetings and events throughout the year. Group business consists mainly of corporate meetings and catering based social groups such as weddings, reunions, and charity events. There is relatively strong corporate demand in the group sector due to the abundance of office space in the South Bay.

The subject site is well located relative to the majority of the demand generators in the market, but it is a fair distance from the waterfront and the Manhattan Beach Pier. Its location relative to commercial and leisure demand generators, including shopping and golf, will allow the subject hotel to capture existing demand in the area but in order to further generate additional demand for the market it is important that the subject hotel differentiate itself with regards to design, amenities, and/or brand. The Manhattan Beach project has the ability to be a demand generator itself, by attracting leisure demand looking for quality accommodations in the area as well as corporate demand wishing to stay nearby to quality shopping, dining and leisure activities. In order to effectively generate demand, the proposed hotel will have to differentiate itself from both the full service branded hotel (Marriott Manhattan Beach) in the immediate area as well as the smaller properties in the competitive market located closer to the waterfront.

SITE CONCLUSIONS

The site is well located in the north end of Manhattan Beach and proximate to various retail centers. Historically, the City of Manhattan Beach has demonstrated strong demand for corporate and leisure business. The proposed subject's location near many of the area's demand generators should add to the property's ability to attract hotel guests, in particular corporate business.

FACILITIES RECOMMENDATIONS

Our comments concerning facility programming for the subject are based on our analysis of the competitive hotels, the demand patterns of the market, and the intended positioning of the subject within the competitive market. Based on our analysis of the site and competitive lodging properties, as well as our interviews with hotel representatives, and planning officials, we have developed recommendations as to the facilities program of the hotel. The following provides a general scope of facilities that are recommended for the proposed subject.

SCOPE OF FACILITIES

The subject will be primarily competing on the local level with seven hotels located in Manhattan Beach and the neighboring cities of Redondo Beach, Hermosa Beach, and Marina Del Rey. The majority of these hotels are all full-service properties and all are considered to be mature and of good to excellent quality. They are a mix of branded and independent hotels. To appropriately position the subject within the competitive market, the hotel's overall quality level should be at or above the competitive properties. Based on the existing facilities within the market and the subject's location, it is our opinion that the proposed development should be positioned as a high-quality lifestyle hotel with the amenities necessary to capture commercial demand.

Development of a high-quality, mid-size property is the best option to pair with the surrounding community due to the characteristics of this market, which is heavily reliant on transient business. The proposed hotel must differentiate itself by providing personalized accommodations, services, and facilities in a comfortable and intimate setting. The hotel should offer on-site dining facilities that include a bar/lounge area open to the public. We recommend a pared-down food and beverage component with a primary focus on breakfast and dinner. The subject should afford enough versatility to cater to discriminating leisure travelers, while featuring enough meeting space to service small group functions and business travelers. A lifestyle property offering high-quality accommodations and amenities, including a limited but strong food and beverage component, would complement the needs of the local transient and group markets.

After an analysis of the existing hotels in the market and their performance as well as the proposed subject's intended positioning, it is recommended that the hotel align itself with a nationally recognized brand that will offer competitive assets such as a reservations system and international sales in order to compete with coastal properties more ideally located along the waterfront. While the Manhattan Beach hotel market is characterized by a significant number of successful, independent hotels, it is our recommendation that the location of the proposed hotel relative to other independent hotels in the market makes a brand affiliation advisable.

The proposed hotel will be located along Parkview Avenue, adjacent to the Manhattan Village mall where the hotel's Porte-cochère will provide access from Parkview Avenue.

Presented below is our analysis and recommendations for the subject hotel.

Guest Rooms

We have assumed that the hotel will consist of a total of 150 rooms. Given the hotel's intended positioning, which is anticipated to attract a large number of families and leisure travelers as well as corporate travelers, we recommend a mix of 45 percent king rooms, 45 percent double queen rooms, and 10 percent suites.

Mix of Guestrooms		
Room Type	Rooms	Ratio
Single King	68	45%
Double Queen	67	45
Suite	15	10
Total	150	100%

Individual guest units should offer either king-size beds or two queen beds in approximately 360 to 390 square feet of guestroom space. We recommend that the guest rooms contain a 32" or larger flat-screen, remote-controlled television with on-command movie options, ample sized working desk and chair; telephone with two lines and voicemail; wireless internet access; coffee maker; hairdryer; in-room safe; iron and ironing board; good quality bath products; and other amenities consistent with a high quality boutique hotel. The suites should be larger in size, approximately 480 to 650 square feet, and offer separate sitting areas. With the recommended guest room mix, the property should be able to accommodate a diverse mix of demand from the leisure, corporate, and group market segments. As stated in the Introduction, our market and operating projections, which are presented in the following sections, assume 150 guestrooms.

Food and Beverage

Given the subject's location and characteristics of the market, we recommend the restaurant to be positioned as an upscale bistro, serving breakfast and dinner. Given the subject's location and characteristics of the market, the hotel should also have a lounge/social area providing comfortable seating and offering beverages and light food items. Back of the house production areas would service all food and beverage services, including meeting rooms. As a high-quality property, the hotel should also provide in-room dining.

Meeting Space

As the property will be competing with a variety of properties from limited- to full-service properties, most containing moderate to large amounts of meeting space, we recommend the subject provide adequate meeting space to accommodate functions for SMERF, corporate groups, and other small groups. The amount of meeting space should be within the range of available space provided at the competitive properties, which is as follows:

Meeting Space of the Primary Competitive Market			
	Square Feet (Rounded)	# Guestrooms	SF/Room
Manhattan Beach Marriott	25,000	385	65
Portofino Hotel & Marina	8,700	161	54
The Belamar Hotel	4,500	127	35
Beach House Hermosa Beach	2,285	96	24
The Shade Manhattan Beach	4,400	38	116
Jamaica Bay Inn	1,000	111	9
Residence Inn	665	176	4
<i>Average</i>	6,650	156	37

Source: PKF Consulting

It is our recommendation that the proposed hotel should offer approximately 7,500 square feet of meeting space, or 50 square feet per guestroom. Given the size of the site and the recommended room count, the primary demand generators in the market, and the subject's positioning as a high-quality boutique property, this amount is towards the middle of the range provided in the properties, but slightly higher than the average of the competitive set. We find this reasonable given the subject's location and market positioning, which provide facilities to attract corporate clients. All available meeting space should be equipped with wireless internet access, independently controlled lighting, and a good quality sound system.

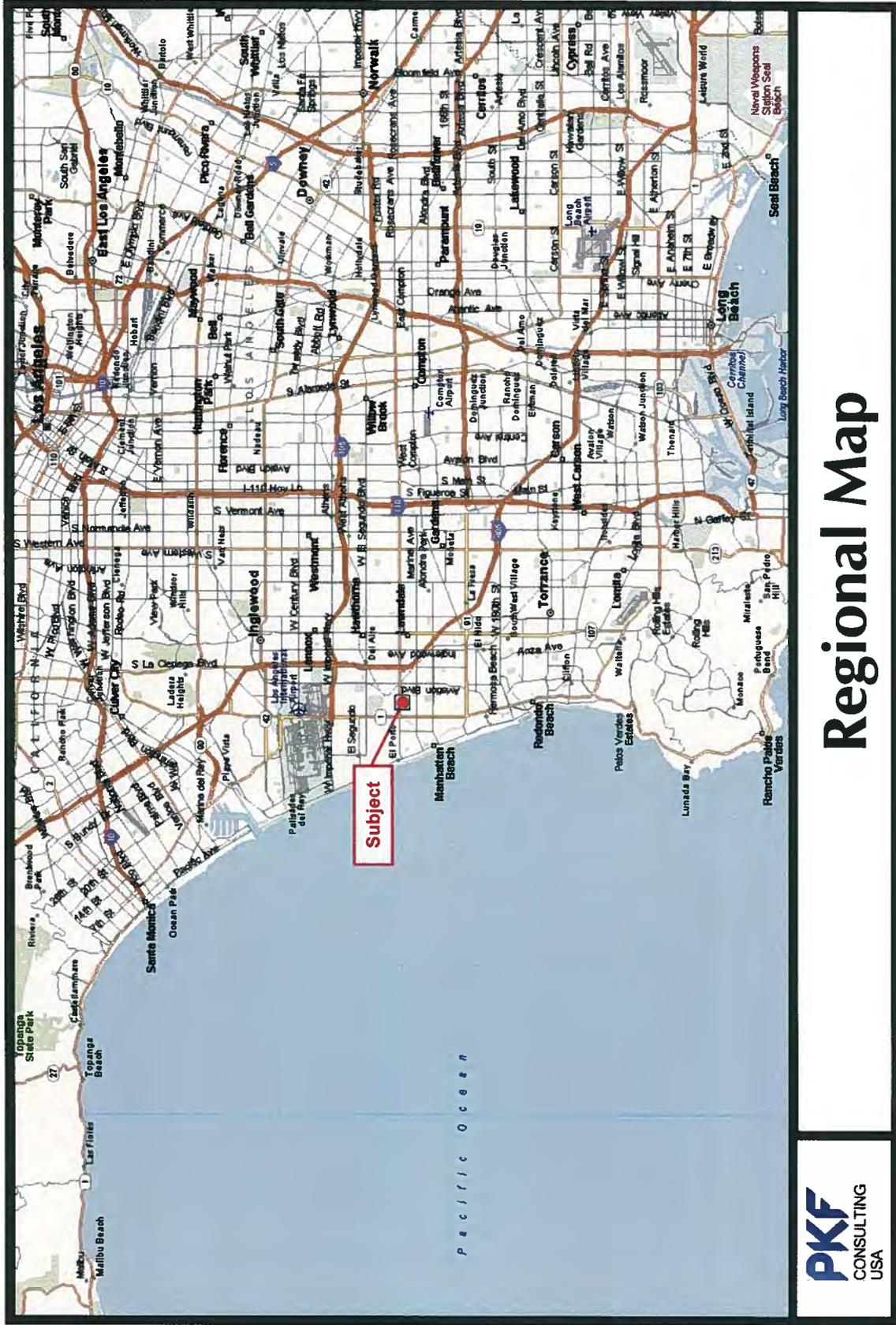
Guest Services and Amenities

Guest services and amenities should also include a fitness center, business services, concierge services, dry cleaning/laundry services, high-speed wireless internet access in public areas, valet parking, and other amenities commonly found in upscale hotels. The fitness center should provide cardiovascular equipment, free weights, and a universal machine, as well as water and towel service.

Facility Conclusions

The aforementioned facilities and amenities are recommended to optimize the market position and performance of a hotel at the subject site. With its location relative to local demand generators the property would be decently located and would possess the facilities to service the needs of the leisure, corporate, and group market segments. Our market projections for the proposed subject assume the recommended facilities, amenities, and services.

Section III
AREA REVIEW



Regional Map

AREA REVIEW

INTRODUCTION

The economic climate of the market area encompassing the subject property is an important consideration in forecasting hotel demand and income potential. Historical economic and demographic trends that highlight the amount of visitation or other travel-related indicators provide a basis for hotel demand projections. The subject property is located in the City of Manhattan Beach, within the South Bay area of Los Angeles County. The purpose of this section is to review available economic and demographic data to determine whether the subject site's regional and local market areas might experience future economic growth.

LOS ANGELES COUNTY OVERVIEW

Los Angeles County, otherwise referred to as the Los Angeles-Long Beach Metropolitan Statistical Area (MSA), includes 88 incorporated cities, covers an area of 4,752 square miles, and as of January 2015, had an estimated population of approximately 10.14 million people. In the past 80 years, the county has evolved into a large commercial/industrial urban community and has become the business and financial center of California and the Western United States. The regional economy has become more diversified with a larger number of people employed in services, home-based businesses, motion picture production, computer software development, and other professional services. Recent growth in regional employment has been driven chiefly by gains in education and health services, construction, and government segments of the economy. Overall regional economic activity had increased significantly over the last year. By measure of GDP alone, L.A. County would be larger than Sweden, Norway, Poland, Belgium or Taiwan.

Los Angeles County typically acts as an excellent barometer for the performance of the greater Southern California lodging market. As the largest and most diverse of the major Southern California markets, individual hotel performance often greatly varies. However, when taken as a whole, the growing pains and opportunities of the Los Angeles County area often reflect those seen in other areas.

As with the national economy, the State of California and the Los Angeles area fell into economic recession during the third quarter of 2008. However, today California is back on track to reclaim its status as the Golden State. The steep decline of the economy during the recession was exacerbated by seemingly intractable fiscal challenges that began well before the downturn. Now, after nearly five years of recovery, California and Los Angeles County are on more solid footing. Although the recovery continues to be slow, the unemployment rate is falling, more people are finding jobs, the housing market is improving and for the first time in years, budget surpluses are in sight.

In September 2015, Los Angeles County supported a civilian labor force of more than 4.6 million workers. Los Angeles County entered 2014 with momentum from a county labor market that slowed during the second half of 2013. In Los Angeles County, unemployment

dropped to 7.5 percent in 2014, its lowest level since 2008, and is estimated to drop even further in 2015 and 2016. Recent growth in regional employment has been driven chiefly by gains in leisure and hospitality, professional, scientific and technical services, healthcare and social assistance, and construction.

This improvement is consistent with the Los Angeles County Economic Development Corporation's (LAEDC) outlook that the economy has continued to move forward in 2015 and will continue to do so in 2016, barring any unforeseen shocks to the national economy. According to the LAEDC the local consumer sector is improving, an all-important fact for retailers and other consumer-serving businesses. As for the business sector, 2014 brought opportunities for emerging as well as existing industries. Over the short to medium term, expansion will continue in the major industries. In addition, Silicon Beach will continue to grow as Silicon Valley companies seek to capitalize on the presence of creative content here in Los Angeles. Also, venture capital will continue to flow to the area as startups in a variety of technology industries grow in number. Finally, even as concerns about funding for government aerospace programs linger, private firms will continue to pursue commercial space ventures from their operations in Los Angeles County and elsewhere in Southern California.

Los Angeles International Airport (LAX), the busiest airport on the West Coast, is a bustling domestic stop and an important international hub. The airport has an enormous impact on tourism and travel in the greater Los Angeles area as many international tourists use LAX as a gateway to the United States. The following table shows the history of passenger travel at Los Angeles International Airport.

Los Angeles International Airport Passenger Counts 2004 – 2014 & YTD 2015			
Year	Domestic	International	Total
2004	44,200,000	16,500,000	60,700,000
2005	44,000,000	17,500,000	61,500,000
2006	44,100,000	16,900,000	61,000,000
2007	45,200,000	17,200,000	62,400,000
2008	43,100,000	16,700,000	59,800,000
2009	41,400,000	15,100,000	56,500,000
2010	43,100,000	15,900,000	59,100,000
2011	45,100,000	16,700,000	61,800,000
2012	46,500,000	17,200,000	63,700,000
2013	48,800,000	17,900,000	66,700,000
2014	51,600,000	19,100,000	70,700,000
CAAG	1.6%	1.5%	1.5%
YTD 9/14	38,927,178	14,568,200	53,495,378
YTD 9/15	40,469,784	15,690,039	56,159,823

Source: Los Angeles World Airports and PKF Consulting USA

Following two years of decline (2008 and 2009), passenger travel at LAX is showing continued signs of recovery, beginning in 2010 and through 2014. Overall, from 2004 to 2014, total passenger counts increased by an annual average of 1.5 percent, and recently reached a record level of more than 70 million passengers. Additionally, through the first

nine months of 2015, total passenger arrivals increased by 5.0 percent as compared to the prior period last year.

LAX Modernization

Los Angeles World Airports (LAWA) is in the midst of a multi-billion dollar development program for Los Angeles International Airport (LAX). The centerpiece of the program is the recently Tom Bradley International Terminal Modernization (TBIT) Project which includes new gate and concourse areas and a great hall for luxury dining and retail. LAWA also completed a \$737 million renovation in 2010 of the existing TBIT that upgraded the facility with a new in-line baggage screening system and interior improvements to enhance service and convenience to the passengers and tenants who use LAX's premier international terminal. Additionally, there are several major airfield and facility projects underway that are in support of the development program. These include a new Central Utility Plant, new taxiways and taxi lanes, and renovations to other terminals.

In September 2013, the LAX revealed a \$1.9 billion renovation to its Tom Bradley International Terminal. The renovation included nine new gates big enough to accommodate the Airbus A380, the world's largest passenger airliner. Furthermore, the waiting areas have been upgraded with new furniture, massive art displays, and more than 60 local and luxury restaurants and shops. With the latest expansion, the terminal doubled in size from 1.2 million square feet to 2.2 million. Phase II of the renovation, which will be completed by December 2015, will add nine more gates and update the security and customs areas.

The airport's \$438 million Central Utility Plant project that replaced the 50-year old existing Central Utility Plant (CUP) was completed in March of 2014. The new energy efficient facility with state-of-the-art computerized management systems doubled the airport buildings' cooling capacity, as well as increased the steam-heating capacity of the airport by a third. The plant will generate nearly nine megawatts of electricity for the airport, with any excess being exported to the Department of Power and Water.

The airport's \$7 million Runway Status Light project was completed in September of 2014, and significantly increases the safety on the runways for pilots and passengers. Utilizing lights embedded in the tarmac along the runways, pilots will now be able to visually see whether or not a runway is safe to approach. This, along with the installation of a new advanced ground radar system, ASDE-X, which allows the air traffic control tower to identify the location of all aircraft and vehicles on the runways and taxiways, make LAX's safety measures some of the most modern and advanced available.

In addition, other planned renovations include the \$270 million Elevator, Escalator, and Moving Walkway project that will replace or refurbish 212 outdated systems with new, modern units throughout the airport; the \$613 million In-Line Baggage Handling & Screening System program will improve and automate the security screening of checked baggage at all LAX terminals and will make travel through LAX safer, faster and more convenient. The total cost of the program covers all nine LAX terminals; the \$508 million

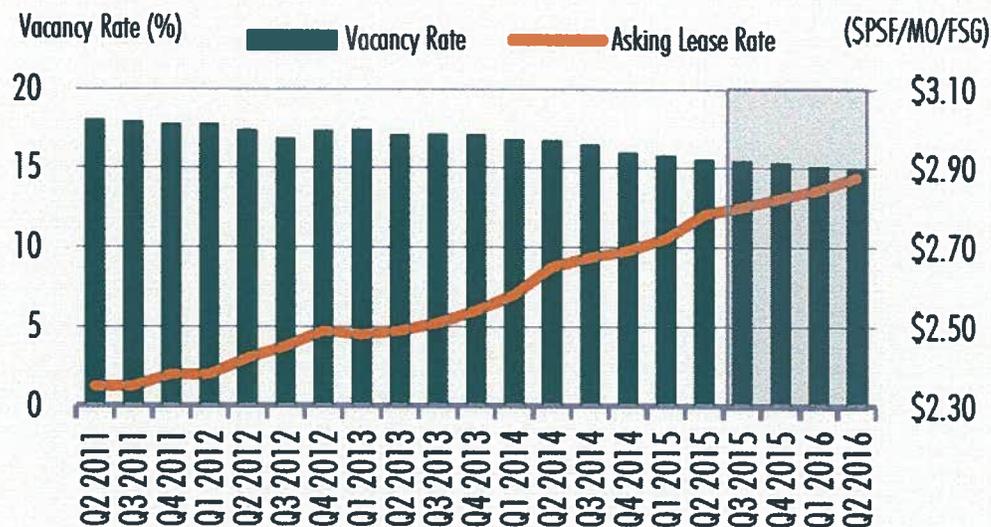
renovation to Terminal 1 in collaboration with Southwest Airlines which will modernize the terminal's outdated equipment and infrastructure, double the amount of available concessions, create a brighter more open lobby, and introduce an automated system to handle checked bags. The project began in the summer of 2014, and is expected to be completed in 2018. The \$229 million renovation/modernization of Terminal 5 will improve passenger service and security with a completed new in-line baggage screening system, expansion and streamlining of the passenger screening check points and international passenger processing facilities. These renovations are expected to be completed by 2016, with the exception of the Terminal 1 renovation.

Office market activity is an excellent indicator of the county's economy. According to CBRE, the Los Angeles County office market consists of the Tri-Cities/Glendale, Los Angeles Downtown, Hollywood/Wilshire Corridor, San Fernando Valley, San Gabriel Valley, mid-Counties, South Bay, and West Los Angeles submarkets. The County recorded a year-to-date net absorption of 2,719,103 square feet at the end of 2014 with the highest level of net absorption for a calendar year since 2005. The Los Angeles office market continued to build upon an encouraging start to 2015 as the County posted 1,400,000 square feet of positive net absorption during the second quarter of 2015 (Q2 2015), up 64.3% over Q1 2015 due primarily to continued strength in the West Los Angeles and South Bay submarkets. Nine out of ten submarkets showed positive net absorption, with only the Hollywood/Wilshire Corridor having minor negative movement. The amount of net absorption pushed total vacancy rates to 15.3 percent, down from 16.4 percent in the same period in the previous year and down from 15.5 percent in the previous quarter. Weighted average asking rental rates increased to \$2.86 per square foot, per month full service gross, up from \$2.80 per square foot, per month compared to the last quarter and \$2.72 per square foot, per month compared to Q2 2014.

The Greater Los Angeles office market is poised for continued growth during the near term. Office job growth in the local market is forecasted to grow by 53,100 new jobs over the next year and a half, according to CBRE Econometric Advisors. As a result of the increased office demand, the overall vacancy rate is expected to decline modestly by the end of 2015, while asking lease rates are projected to climb by approximately 3.4 percent over the next 12 months.

The following table summarizes the Greater Los Angeles office market performance from Q1 2011 to Q2 2015, along with CBRE's 12-month forecast.

12-Month Forecast



Source: CBRE Econometric Advisors, Q2 2015.

REGIONAL INFRASTRUCTURE

Los Angeles is located within 500 miles of several large metropolitan areas including San Francisco, San Diego, Sacramento, Phoenix, and Las Vegas. The transportation infrastructure of the region consists of a wide range of services and facilities including regional and international airports, the Ports of Los Angeles and Long Beach, an extensive freeway system, and numerous railroad and bus transit lines. Each component of the region’s transportation system is reviewed in the following discussion.

Port of Los Angeles/Long Beach

The Port of Los Angeles is 25 miles south of Downtown Los Angeles and is one of the West Coast’s gateways to international commerce. It ranks as the busiest port in the U.S. and nineteenth busiest in the world. The Port of Los Angeles is located in San Pedro Bay and encompasses 7,500 acres, 43 miles of waterfront and features two passenger terminals and 21 cargo terminals, including container, automobile, and dry and liquid bulk. In 2014, these 21 terminals handled a combined 176.4 million metric revenue tons of cargo, equating to about \$290.2 billion in cargo value. In 2014, the Port moved an estimated 8.3 million TEUs (20-foot equivalent units), a 5.1 percent increase over 2013. The port generates approximately 1.2 million jobs in California, and accounts for 19.3 percent of the nation’s total loaded TEUs. With a 2015 capital improvement budget of \$281 million, the port is expected to continue upgrading and expanding its production.

The Port of Long Beach, directly next to the Port of Los Angeles, is the second busiest port in the U.S. only behind its sister Port of Los Angeles. With 3,000 acres of land and 4,600

acres of water, the port features 22 shipping terminals that handle nearly 1/3 of all loaded containers passing through California's ports. In 2014, the port handled 63.1 million metric tons of cargo, and moved approximately 6.7 million TEUs, totaling approximately \$183 billion in handled cargo. The port generates 316,000 jobs in Southern California, and 1.4 million jobs throughout the U.S.

Recently, both the Port of Los Angeles and the Port of Long Beach endured a slowdown by the International Longshore and Warehouse Union lasting from the end of November 2014 through February 2015, creating a traffic jam of hundreds of cargo ships carrying millions of dollars of cargo. Although a tentative agreement was reached on February 20, 2015, it has taken months for the backlog to be completely cleared, meaning an even longer continued effect on the economies of Southern California, California as a whole, and the entire nation.

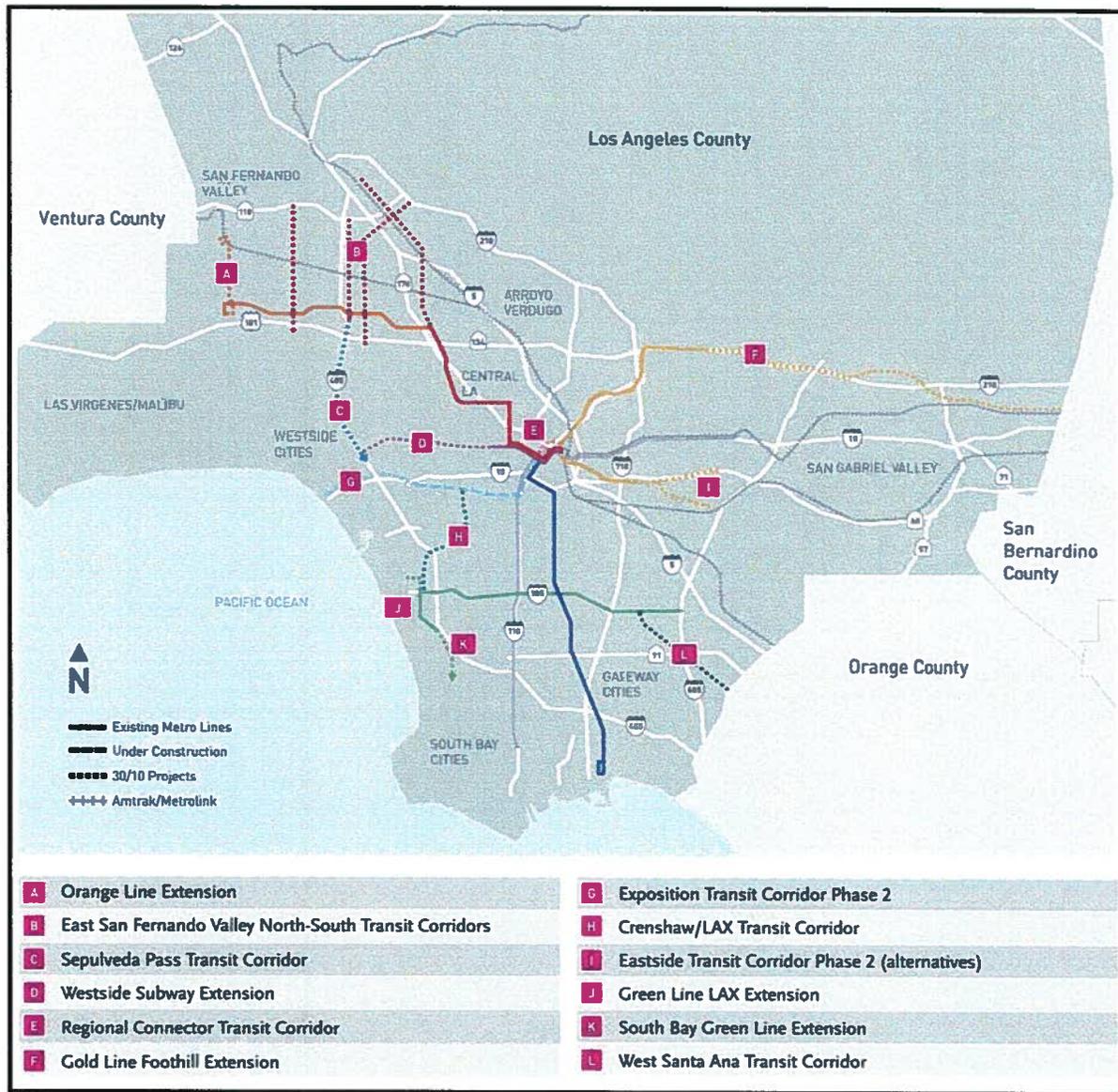
Rail and Bus

Amtrak and Greyhound serve Los Angeles and the Southern California region in providing nationwide passenger train and bus service.

Los Angeles continues to expand its passenger rail line capabilities with the Metropolitan Transportation Authority (MTA) opening up passenger rail lines, many of which are subterranean, that extend from Downtown Los Angeles to locations throughout Los Angeles County. Estimates from September 2015 place combined rail and bus ridership at average weekday boardings of 1.4 million and average Saturday, Sunday, and Holiday boardings (combined) of over 1.7 million.

Metro Rail is the rapid transit rail system consisting of six separate lines (the Red, Purple, Blue, Expo, Green, and Gold lines) serving 80 stations in the Los Angeles County, California area. It connects with the Metro transit-way bus rapid transit system (the orange line and silver lines) and also with the Metrolink commuter rail systems. The system, which has an average daily weekday ridership of 329,886 as of September 2015, is owned and operated by the Los Angeles County Metropolitan Transportation Authority (Metro) and started service in 1990. It has been extended significantly since that time and several further extensions are either in the works or being considered.

The MTA is accelerating 12 new expansion projects of the MetroRail as part of their 30/10 initiative, which will use Measure R sales tax revenues to fund completion of 30 years' worth of construction in only ten years. The 30/10 initiative is projected to create 160,000 new jobs, and on an annual basis add 77 million boardings, decrease mobile source pollutions by 521,000 pounds and gasoline by 10.3 million gallons, and reduce vehicle miles traveled by 191 million. The map on the following page shows current MTA rail lines and projected new lines from the 30/10 Initiative. The ongoing phase 2 of the exposition line expansion, which will connect downtown LA and Santa Monica via light rail, is currently 90 percent complete.



In addition to commuter rail, Union Pacific and other rail lines provide freight capability from extensive rail yards just east of Downtown Los Angeles.

TOURISM INDICATORS

Important trends that indicate the health of Los Angeles area tourism include total visitor volume statistics, Los Angeles Convention Center bookings, and the performance of hotels located throughout Los Angeles County, as measured by PKF Consulting’s 2016 Southern California Lodging Forecast.

Total Visitor Volume

According to Los Angeles Tourism & Convention Board, total visitation to Los Angeles County in 2014 was approximately 44.2 million people, reflective of a 4.8 percent increase over 2013, marking the fifth consecutive year of record-breaking tourism. The increase in total visitation experienced in 2014 marks a five-year climb in visitor numbers seen in Los Angeles County. International visitors made one of the largest impacts on Los Angeles' tourism with 6.5 million visitors to the city, a 4.8 percent increase over 2013, with the largest share of overseas visitors coming from China.

In 2014, direct tourism spending rose with visitors accounting for \$19.6 billion in expenditures, a 6.8 percent increase over 2013. The tourism board notes that nearly one-third of the total was spent by foreign visitors since they tend to stay longer and spend more per person. These numbers represent an all-time high for both visitors and spending in the history of the county.

The overall increase in visitation stems from Los Angeles Tourism & Convention Board's successful digital, television, and online advertising campaigns launched in multiple domestic feeder cities such as San Francisco, San Diego, Phoenix, New York City coupled with improvements made to the city's tourism website, discoverLosAngeles.com. Furthermore, to spread awareness abroad, the tourism board operates two tourism offices in the cities of Shanghai and Beijing in China. The following table summarizes the number of overnight visitors to Los Angeles County and their direct spending between 2004 and 2014. According to the Los Angeles Tourism & Convention Board, the total overnight visitor count was 29.2 million in 2014, with an estimated contribution of \$19.6 billion to the local economy. In 2014, the total economic impact of tourism to the Los Angeles County's economy was \$30.2 billion.

Overnight Visitor Volumes and Expenditures Los Angeles County				
Year	Overnight Visitation (Millions)	Percent Change	Direct Spending (Billions)	Percent Change
2004	24.3	9.5%	\$12.0	9.1%
2005	25.0	2.9	12.9	7.7
2006	25.7	2.8	13.6	5.4
2007	25.9	0.8	14.2	4.4
2008	25.7	(1.2)	13.8	(2.8)
2009	23.9	(7.0)	11.8	(14.5)
2010	26.1	8.4	14.1	19.5
2011	27.0	4.2	15.2	7.8
2012	27.9	3.7	16.5	7.1
2013	28.5	4.5	18.3	6.1
2014	29.2	2.5	19.6	6.8

Source: CIC Research and L.A. Inc.

Transient Occupancy Tax

One method of tracking visitor trends is by analyzing the transient occupancy tax (TOT) revenue, also known as bed tax revenue. The TOT reflects taxes on room revenue for lodging facilities in the City of Los Angeles. The TOT rate in Los Angeles is currently 14.0

percent. This revenue has experienced a 5.8 percent compound annual growth rate from 2001/02 to 2013/14. Assuming that all hotels located within the city have been paying room tax on a regular basis, the following table highlights the increase in occupancy and/or average daily rate experienced by these hotels.

Transient Occupancy Tax Revenue City of Los Angeles 2001/02– 2013/14 (Fiscal)		
Year	Tax Revenue	Percent Change
2001/02	\$ 93,867,000	N/A
2002/03	92,652,000	-1.3%
2003/04	97,988,000	5.8
2004/05	127,752,000	30.4
2005/06	126,989,000	-0.6
2006/07	134,557,000	6.0
2007/08	148,523,000	10.4
2008/09	136,323,000	-8.2
2009/10	118,500,000	-13.1
2010/11	134,798,000	13.8
2011/12	149,258,000	10.7
2012/13	157,808,000	12.4
2013/14	184,382,000	16.8
CAAG	5.8%	

Source: LA City Administrative Office

Los Angeles Convention Center

The main demand generator for large convention and meeting activity in Los Angeles is the Los Angeles Convention Center, which contributes a large number of annual group room nights to the Los Angeles hotel market. The center offers approximately 720,000 square feet of exhibit hall space and 150,000 square feet of meeting space split between its two halls. Its enclosed space makes it one of the largest meeting and convention facilities in the country. The Los Angeles Convention Center is owned and historically has been operated by the City of Los Angeles. Its operation has been privatized and AEG assumed management of the Center as of December 8, 2013. The following table presents the actual and projected room nights generated by the Los Angeles Convention Center through 2019, based on definite convention bookings as of July 2015. It can be anticipated that additional conventions will continue to be booked in 2015 for the coming years.

Los Angeles Convention Center Current and Projected Activity				
Year	Definite¹	Tentative²	Prospect³	Total Room Nights
2004	226,414			226,414
2005	187,225			187,225
2006	171,463			171,463
2007	112,876			112,876
2008	231,695			231,695
2009	178,376			178,376
2010	207,320			207,320
2011	256,529			256,529
2012	290,528			290,528
2013	187,623			191,823
2014	212,586			212,586
2015	234,567	0	2,400	236,967
2016	229,110	59,046	25,486	313,642
2017	98,714	209,798	149,811	458,323
2018	51,020	164,241	191,229	406,490
2019	71,039	103,449	183,229	357,717

¹Contracted peak and total rooms for executed LACC License Agreement.
²As executed a Letter of Agreement.
³A group considering Los Angeles as a meeting destination for which a Sales Lead has been issued.
Source: Los Angeles Tourism & Convention Board and PKF Consulting USA

The cyclical nature of bookings from year to year reflects a typical pattern for most convention markets, in part because many major conventions either meet in alternate years or in alternate cities. Numbers for 2005 through 2007 showed a lower than average room night count as convention groups remained smaller, fewer conventions were booked, and groups reserved room nights independently and therefore did not get counted as convention center bookings. However, with growing anticipation for the continued development in downtown Los Angeles, booking pace has notably improved.

Los Angeles Convention Center Rehabilitation

The Los Angeles Convention Center is slated for a renovation and upgrade in the coming years to bring the quality of the center up to par with other west coast convention centers including San Diego, San Francisco, and Las Vegas. Previous plans called for renovations to be performed at the Convention Center in tandem with the construction of Anschutz Entertainment Group's (AEG) Farmers Field Football Stadium. AEG, however, announced in March of 2015 that it was unable to secure a NFL football team and would no longer be moving forward with the Farmer's Field/Convention Center plans.

The main concerns regarding the Convention Center revolved around the difference in age and condition of the older West Hall and newer South Hall, as well as the lack of contiguous meeting space between the two. As currently configured, the two halls are separated by a concourse more than 700 feet long over West Pico Boulevard. The City's request for proposals to take on the revamp look to bolster the size of the Convention Center to about 1.0 million square feet, and be completed within a \$350 million budget.

In June of 2015, the architectural plans designed by the team of Populous and HMC Architects were chosen by the City. The design features a number of major additions to the

Convention Center, including plans to connect the South Hall with the West Hall via a new structure over Pico Boulevard with several levels of meeting space and an open courtyard. Plans for the West Hall include the creation of a large “outdoor ballroom” space, with a grand staircase drawing people in from the existing Gilbert Lindsay Plaza. The top floor of the West Hall would also be converted in a large ballroom with outdoor terraces that offer views of the Downtown skyline. According to the Chief Legislative Analyst’s office, final design and financing details are expected to be decided upon by the end of the year as the plan goes before the City Council.

In terms of the **Los Angeles hotel market**, 2012 year saw a shift from 2011 with strong increases in average daily rate, amid a slight positive shift in demand as represented by the increase in occupied room nights. The overall county lodging market has seen a faster recovery than anticipated, from when the economy began to falter in the latter part of 2007. These hotel submarkets either slowed in growth or reversed to a decline in terms of both occupancy and average daily rate, in the fourth quarter of 2009. As the hotel market continued to recover, occupancy and average daily rate posted positive gains in 2012, 2013, and 2014, and are forecast to show continued positive growth through 2015.

The table below displays our Los Angeles County lodging sample set in terms of average daily and total annual rooms supply, annual occupied rooms, market occupancy percentage, and average daily room rate. These statistics illustrate the total lodging supply and demand for the county, including all types of lodging properties. Overall occupancy levels and average daily room rates reflect the composite forecast for the submarkets presented herein, extrapolated to the overall Los Angeles County hotel supply. The table presented below includes the sum of our aggregated sub markets, extrapolated to the overall supply.

Los Angeles County 2015 Historical Market Performance of the Competitive Supply										
Year	Daily Supply	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2010	97,555	35,607,575	N/A	25,515,497	N/A	71.7%	\$138.02	N/A	\$ 98.90	N/A
2011	96,380	35,178,700	-1.2%	26,410,989	3.5%	75.1	146.79	6.4%	110.21	11.4%
2012	95,354	34,804,210	-1.1	27,164,821	2.9	78.1	154.77	5.4	120.80	9.6
2013	99,220	36,215,440	4.1	28,955,331	6.6	80.0	162.10	4.7	129.61	7.3
2014	100,308	36,612,377	1.1	29,712,406	2.6	81.2	174.69	7.8	141.77	9.4
2015E	100,932	36,840,198	0.6	30,061,771	1.2	81.6	187.58	7.4	153.06	8.0
2016F	102,650	37,467,374	1.7	30,535,381	1.6	81.5	197.82	5.5	161.22	5.3
CAAG	0.9%	0.9%		3.0%			6.2%		8.5%	

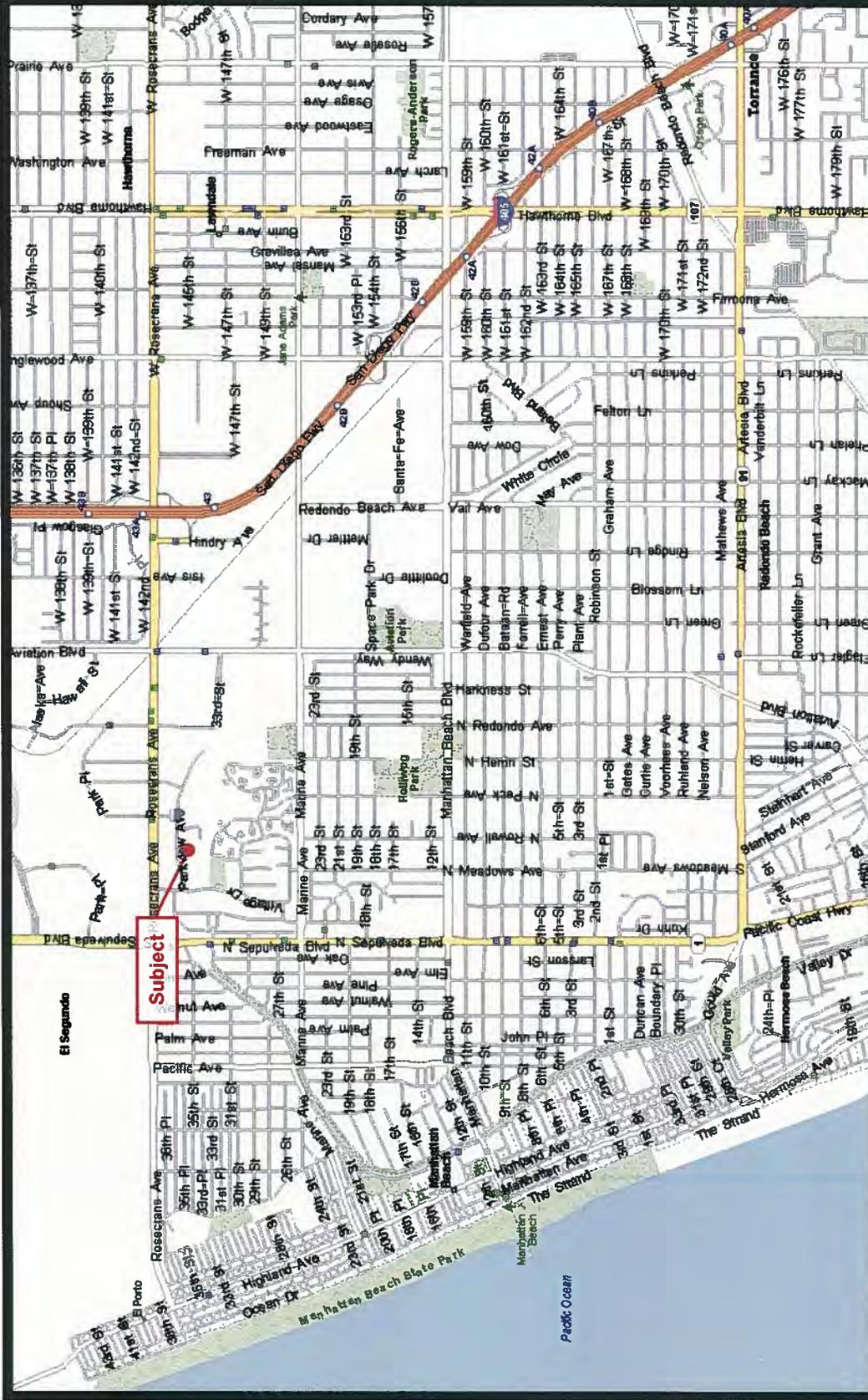
Source: PKF Consulting

Los Angeles County finished 2014 at an occupancy rate of 81.2 percent. This signifies an increase in occupied room nights of 2.6 percent last year amidst a 1.1 percent increase in annual supply. With supply increasing in 2015 at 0.6 percent, we estimate that the county’s occupancy will increase to 81.6 percent as occupied room nights grow by 1.2 percent. In 2015, we estimate ADR (Average Daily Room Rate) to increase to \$187.58, an increase of 7.4 percent. With supply increasing in 2016 at 1.7 percent, we forecast that the county’s occupancy will decrease to 81.5 percent as occupied room nights increase by 1.6

percent. In 2016, we forecast ADR to increase to \$197.82, an increase of 5.5 percent. It should be noted that many submarkets and the County as a whole are currently experiencing occupancy levels above their long term averages and, in some cases, previous highs. While we anticipate continued demand growth county wide, in certain submarkets the addition of new hotel rooms may outpace the gain in occupied room nights, as many markets are currently far exceeding their long term stabilized level of occupancy.

AREA CONCLUSIONS

Los Angeles is home to a very large population base. Air access to the county is very good with the Los Angeles International Airport and the numerous regional airports. Los Angeles is also the center of the entertainment industry and numerous media companies ensuring adequate press coverage. While the current economic uncertainty has had an impact across all industries, Los Angeles continues to present a viable place to do business and is expected to continue to recover as economic signs continue to improve in 2015 and beyond.



Neighborhood Map

Proposed Hotel at Parkview Avenue, Manhattan Beach, California



NEIGHBORHOOD ANALYSIS

SOUTH BAY OVERVIEW

Defining the South Bay

According to the Los Angeles County Economic Development Corporation, the South Bay region of Los Angeles County covers approximately 161 square miles, and is roughly bounded on the north by the I-105 freeway, and includes Inglewood and Los Angeles International Airport. The Pacific Ocean borders to the west and south. To the east, the South Bay is bordered by the Los Angeles city limit. However, the “Los Angeles strip” (connecting the body of the city to the port and the communities of San Pedro and Wilmington) is included. There are 15 incorporated cities and parts of the City of Los Angeles in the South Bay, as well as some unincorporated areas between Inglewood and Hawthorne, and near Carson.

Los Angeles County's South Bay communities offer an outstanding quality of life amidst a thriving economic engine. The area hosts some of the biggest names in the region's key industries along with some of the most prestigious residential addresses in the Southland.

Blessed with a temperate coastal climate, the South Bay enjoys cleaner air, warmer winters, and cooler summers than surrounding areas. Beautiful beaches, scenic harbors, and the lure of the Pacific surf have brought many visitors and residents to the area, while an attractive business climate has brought scores of global corporations to the South Bay.

The region hosts American headquarters for Honda, as well as key divisions or headquarters for Raytheon, Lockheed Martin, Computer Sciences Corporation, Boeing, Chevron, British Petroleum, Mattel, Northrop Grumman, and Xerox and many others. Industries such as aerospace, technology, global communications, medicine, military, and business applications are key areas of excellence in the South Bay. El Segundo is home to Los Angeles Air Force Base. Its Space and Missile Systems Center is responsible for creating much of the nation's preeminent global space platform and over 60,000 jobs in L.A. County. Other areas of specialization include global telecommunications, media production, advanced manufacturing, financial services, biomedical research, and international trade.

The South Bay's Business Resource Network is a consortium of business, government, and educational entities dedicated to providing business assistance with hiring, training, organizational development, and more. They help businesses overcome regulatory and permitting issues and can even help uncover financing opportunities.

From the industrial heart of El Segundo, just south of LAX, to the beauty of the Palos Verdes Peninsula, the South Bay puts a great deal of focus on maintaining a great quality of life. South Bay schools are among the nation's highest rated and offer competitive programs and after-school activities in oceanography, astronomy, robotic engineering, and nano-technology.

The communities of the South Bay offer many parks and recreational activities close at hand to pleasant neighborhoods. Museums and cultural attractions are plentiful and include the Western Museum of Flight, Lomita's Railroad Museum, and the Banning Residence Museum which celebrates the "Father of the Port of Los Angeles."

There are over 90 languages spoken in the 13 school districts of this ethnically rich area which includes the largest Samoan community in the continental U.S. and several generations of Japanese Americans. While diverse in their origins, the people of the South Bay are united in creating great communities with superior education, tremendous business potential, and a reputation for good governance.

Major Infrastructure

The South Bay is well served by four freeways, including the I-105 or "Century" freeway, the I-405 or "San Diego" freeway, the I-91 freeway, and the I-110 or "Harbor" freeway. There are car pool lanes on both the I-105 and I-405, while a busway and car pool lane run down the center of the I-110 from downtown Los Angeles to the I-91.

At the northern end of the region is Los Angeles International Airport (LAX), while at the southern end are the "twin Ports" of Long Beach and Los Angeles. In addition, the "Green Line" light rail line runs east-to-west into the region along the median of the I-105, and then drops into Redondo Beach. There are also two general aviation airports at Hawthorne and Torrance.

Commercial Office Market

The total square footage of office space in the third quarter of 2015 in the South Bay market was approximately 31,893,334 square feet. The South Bay market has a large concentration of firms in aerospace, automotive, telecommunications, information technology, healthcare, and business services, and is served by a highly educated labor force.

The South Bay market's vacancy rate reached 18.8 percent during the third quarter of 2015. The end of the third quarter posted year to date positive net absorption of 501,351 square feet. As of the third quarter of 2015, there is 96,000 square feet under construction with no new projects in the pipeline. The weighted average asking rent jumped from \$2.29 in the first quarter to \$2.32 per square foot, per month full service gross.

South Bay Lodging Market

Comprised of a large number of beach and industrial communities south of Los Angeles International Airport, the South Bay is typically known to be industrial due to its location near the Ports of Los Angeles and Long Beach. The Port of Los Angeles, located in San Pedro, represents one of the busiest ports in the United States and generates a significant

amount of commercial demand, as well some transient demand from the daily departures and arrivals of cruise lines.

In addition to a large industrial base, the South Bay is home to the StubHub Center. Located in Carson, the former Home Depot Center continues to draw major events and concerts, including sports teams, X-Games, and headliners. The center contains a 27,000 seat stadium that is home to the Los Angeles Galaxy Major League Soccer team. This state-of-the-art stadium also features an 8,000-seat tennis stadium and a number of other training facilities for track and field, baseball, softball, crossfit, and cycling. In addition, the owners of this center also host a significant number of concerts at this venue when it is not in use for athletic events. In recent years attendance numbers for Major League Soccer games have increased and this trend is expected to continue into the future.

The following table presents the historical performance of the South Bay lodging market from 2009 through 2014, estimate for 2015 and forecast for 2016 per PKF Consulting's 2016 Southern California Lodging Forecast.

South Bay									
Historical Market Performance of the Competitive Supply									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2010	2,208,980	N/A	1,587,728	N/A	71.9%	\$119.69	N/A	\$ 86.03	N/A
2011	2,185,255	-1.1%	1,633,336	2.9%	74.7	125.18	4.6%	93.56	8.8%
2012	2,208,980	1.1	1,688,286	3.4	76.4	131.11	4.7	100.21	7.1
2013	2,208,980	0.0	1,748,141	3.5	79.1	138.13	5.4	109.31	9.1
2014	2,242,195	1.5	1,856,816	6.2	82.8	145.10	5.0	120.16	9.9
2015E	2,325,415	3.7	1,957,699	5.4	84.2	156.07	7.6	131.39	9.3
2016F	2,340,380	0.6	1,996,853	2.0	85.3	166.21	6.5	141.82	7.9
CAAG	1.0%		3.9%			5.6%		8.7%	

Source: PKF Consulting

In 2015, we estimate that occupied rooms will increase 5.4 percent to an occupancy of 84.2 percent, with a 3.7 percent change in supply due to the reopening of the 111-room Redondo Beach Hotel (formerly the Best Western Sunrise Hotel), and as the market continues to absorb the introduction of the 172-room Residence Inn Redondo Beach and 147-room Hilton Garden Inn Redondo Beach, both of which opened in 2014. Average daily rate is estimated to increase 7.6 percent to \$156.07 for 2015. In 2016, we expect total occupied rooms to grow by 2.0 percent, resulting in 85.3 percent occupancy and 6.5 percent growth in average daily rate to \$166.21. Supply in 2016 is expected to grow 0.6 percent as the 54-room Shade Hotel Redondo Beach opens in April 2016.

CITY OF MANHATTAN BEACH

Manhattan Beach was originally part of the ten-mile Ocean frontage of Rancho Sausal Redondo. In 1888, the Santa Fe Railroad laid tracks from Los Angeles to the Redondo Beach wharf, passing through what is now Manhattan Beach. Pacific Railway Company laid a new track in 1910 from Santa Monica to Redondo Beach. Santa Fe terminated their passenger services in 1918 because it could not compete with Pacific Railway Company.

With transportation, development followed. Real estate developers, George Peck, John Merrill, and Frank Daugherty who each owned significant portions of the present-day Manhattan Beach agreed that one name should be given to the area. John Merrill, originally from Manhattan, New York, won a coin toss that determined that the name of the area would be Manhattan.

The City of Manhattan was incorporated on December 7, 1912, at which point the name of the city was changed to Manhattan Beach to avoid confusion with the other Manhattans in the country. Real estate developers originally promoted Manhattan Beach as a place for vacations, or weekend getaways. There were few permanent residents. Since incorporation, Manhattan Beach has grown from a population of approximately 600 residents to approximately 37,000 residents. The City of Manhattan beach is comprised of roughly 40 acres of recreational beach area as well as 54 acres of developed parks.

Manhattan Beach is bordered on the north by El Segundo, Hermosa Beach on the south, Hawthorne to the northeast, and Lawndale to the east. The city is approximately 20 miles southwest of downtown Los Angeles.

The city lies approximately three miles south of Los Angeles International Airport, the largest and busiest airport in Southern California. The Ports of Los Angeles and Long Beach also lie approximately 15 to 20 miles to the southwest of the city.

The actual city covers 3.88 square miles of mostly beachfront property. Primarily middle-aged and young professionals populate the city as more than half of the city's population is between the ages of 25 and 54. According to the most recent profile report by the Southern California Association of Government's Regional Council, the median family income for the city's residents is roughly \$119,000, though the average salary per job as of 2013 was approximately \$52,000. According to the ULI (Urban Land Institute) advisory services panel, thirty percent of Manhattan Beach residents earn more than \$200,000 per year, making the median income roughly 2.3 times greater than the median income of the Los Angeles metro area. Visitors to the region represent a quickly growing percentage of consumer spending, as 75 percent of the restaurant customers are non-residents.

The Manhattan Beach housing market has rebounded dramatically after the years of nationwide recession, boasting an increase in average home sales prices of 46 percent since 2009.

The city receives an average rainfall of 12.1 inches per year and enjoys average temperatures of 70 degrees in the summer and 55 degrees in the winter.

Population

As detailed in the following table, the population of the City of Manhattan Beach has remained relatively consistent, increasing at a compound annual average growth rate of 0.35 percent from January 2009 through December 2014, compared to the 0.47 percent

decline for the City of Los Angeles and the 0.6 percent growth for Los Angeles County in the same period.

Population Estimates 2009 - 2014			
Year	LA County	City of Los Angeles	City of Manhattan Beach
2009	9,818,605	4,050,727	35,135
2010	9,847,712	4,094,764	35,207
2011	9,908,030	3,835,724	35,315
2012	9,980,432	3,875,207	35,486
2013	10,054,852	3,914,359	35,633
2014	10,136,559	3,957,022	35,763
CAAG	0.64%	-0.47%	0.35%

Source: California Department of Finance

The population of Manhattan Beach is characterized by older, educated residents with 73 percent holding college degrees and a median age of 42. The following table shows the major employers in the City of Manhattan Beach in fiscal year 2013/14.

City of Manhattan Beach Principal Employers from 2013/14	
Employer	Number of Employees
Northrop Grumman	1,876
Kinecta Federal Credit Union	550
Target Corporation	405
Skechers USA Inc.	323
City of Manhattan Beach	271
Macy's West LLC	268
Fry's Electronics	264
Marriott-HMC Interstate	233
Ralphs Grocery Co.	167
Tecolote Research	134

Source: City of Manhattan Beach 2013/14
Comprehensive Annual Financial Report

Transient Occupancy Tax

One method of tracking visitor trends is by analyzing the transient occupancy tax (TOT) revenue, also known as bed tax revenue. The TOT reflects taxes on room revenue for lodging facilities in the City of Manhattan Beach. The TOT rate in Manhattan Beach is currently 10.0 percent. This revenue has experienced a 2.2 percent compound annual growth rate from fiscal year 2003/2004 to 2014/2015. Transient occupancy tax is the City of Manhattan Beach's third largest revenue source. Assuming that all hotels located within the city have been paying room tax on a regular basis, the following table highlights the increase in occupancy and/or average daily rate experienced by these hotels.

Transient Occupancy Tax Revenue City of Manhattan Beach 2008 – 2015 (Fiscal)		
Year	Tax Revenue	Percent Change
2008	3,955,326	9.8%
2009	3,503,383	-11.4
2010	3,101,814	-11.5
2011	3,170,089	2.2
2012	3,118,543	-1.6
2013	3,740,903	20.0
2014	4,167,053	11.4
2015	4,604,935	10.5
CAAG	2.2%	

Source: City of Manhattan Beach
Comprehensive Annual Report

THE FUTURE ECONOMY OF THE SOUTH BAY AREA

The economy of the South Bay area has a very healthy balance, with its strengths in international trade, technology (both software and hardware), and the growing presence of telecommunications and entertainment activity. In addition, the City of Manhattan Beach will continue to maintain its presence as a premier leisure destination, but it is the expected growth in commercial demand that should have an important impact on the area. As Silicon Beach continues to attract technology start-up companies, the influx of corporate travelers and residents will drive interest in homes and lodging facilities. Additional development in the hospitality sector is on the radar, as the City of Manhattan Beach pushes for additional, high quality lodging facilities. The city is comprised of many small independent properties coupled with a few larger, branded hotels. As commercial demand continues to increase, the development of mid-sized, high-quality properties becomes more important in satisfying corporate demand in the area. The newer, independent, properties in the region including the Shade Manhattan Beach have achieved significant recognition and success, with the success of the Shade leading to the development of a similarly branded sister property in neighboring Redondo Beach.

The City of Manhattan Beach maintained a triple A credit rating from Moody's and Standard & Poor throughout the recession and should continue to maintain this rating, which bodes well for future economic development. The City of Manhattan Beach has put a Capital Improvement Plan in place over the next five years. Through the remainder of 2015 and moving into 2016, the city of Manhattan Beach is expected to spend roughly 21 million dollars in order to widen roads and bridges, improve parking facilities and structures, and improve city facilities including the fire station.

Additional positive factors are the expansions at both ports of Long Beach and Los Angeles, and the Alameda Corridor. These projects will ensure that Southern California remains one of the World's major international trade centers. An additional asset for the South Bay area is its location along Santa Monica Bay, offering a number of recreational options. Overall, the regional economy of the South Bay area appears stable with modest growth expected for the future.

Section IV
MARKET ANALYSIS

MARKET ANALYSIS

OVERVIEW

The future performance of a hotel is directly related to the supply of and demand for hotel rooms within the subject's market area. Accordingly, an analysis of the local area's hotel market is a key component of the analysis of the subject. The following is a discussion of the competitive hotel market for the proposed hotel in Manhattan Beach.

MARKET ANALYSIS

Competitive Supply

In order to develop conclusions relative to the competitive environment in which the subject will compete, we have analyzed the South Bay lodging market, focusing on the western portion due to the subject's Manhattan Beach location as well as neighboring beachfront cities, and have selected seven hotels that we feel would offer primary competition to the subject hotel. The competitive properties have been selected based on their facilities, location, market performance and orientation, property rating, and rate structure. Though there are a number of additional properties in Redondo Beach, the South Bay market, Marina Del Rey, Santa Monica, and other surrounding areas, we have not included these for a number of reasons, including positioning, location, and rate structure. The competitive supply offers a reasonable basis of historical demand and operating performance on which to base our projections of the subject.

The following chart presents the competitive set for the proposed hotel. A map indicating their locations, a description of each of the competitive hotels and a discussion of the potential additions to the competitive supply are presented on the subsequent pages.

Competitive Supply		
Map Code	Property	Number of Rooms
Subject	Proposed Manhattan Beach Hotel	150
1	Manhattan Beach Marriott	385
2	Portofino Hotel & Marina	161
3	The Belamar Hotel	127
4	Beach House Hermosa Beach	96
5	The Shade Manhattan Beach	38
6	Jamaica Bay Inn	111
7	Residence Inn Manhattan Beach	176
Total Competitive Supply (not including subject)		1,094



Competitive Supply

Proposed Hotel at Parkview Avenue, Manhattan Beach, California

**Competitive Property Number One
Manhattan Beach Marriott**

<u>Location</u>	<u>Description</u>
Address: 1400 Parkview Avenue Manhattan Beach, CA 90266 Distance from the Subject: < 1.0 mile east	Guestrooms: 385 Year Opened: 1987

Facilities & Amenities

- Approx. 25,000 SF of meeting and event space
- Escape lunch and dinner restaurant
- Swimming pool, whirlpool, and sun deck
- Manhattan Beach Golf Club: Nine hole golf course and tennis courts
- Swimming pool; whirlpool
- Fitness center
- Concierge Lounge
- Business center
- Wireless internet in public spaces
- Dry cleaning/laundry services
- Room Amenities:
 - Flat screen television with Cable TV, premium channels, and pay-per-view
 - High speed internet access
 - In-room safe
 - Work desk
 - Dual-line telephone
 - Coffee maker
 - Hair dryer
 - Iron and ironing board
 - In-room dining

Picture



Condition & Renovations

The Marriott Manhattan Beach recently completed a \$7 million renovation in 2011. The guest rooms are scheduled to be renovated in 2016. The property has been continually maintained, including the renovation of public area bathrooms in 2015. The property is in good condition.

Historical Performance

In 2014, the Manhattan Beach Marriott performed below the competitive market average in terms of occupancy and below the competitive market in terms of average daily rate.

**Competitive Property Number Two
Portofino Hotel & Marina**

<u>Location</u>	<u>Description</u>
Address: 260 Portofino Way Redondo Beach, CA 90277 Distance from the Subject: 4.8 miles southwest	Guestrooms: 161 Year Opened: 1965

<u>Facilities & Amenities</u>	<u>Picture</u>
<ul style="list-style-type: none"> • Approximately 8,700 SF of meeting and event space • Baleen Kitchen Restaurant & Lounge • Lobby Lounge • Fitness center • Oceanfront swimming pool and whirlpool • Complimentary beach cruiser bikes • Access to moorings and slips • Business center • Dry cleaning/laundry services • Room Amenities: <ul style="list-style-type: none"> ○ 42" Plasma television with DVD player ○ High speed internet access ○ Balcony or patio ○ Telephone with voicemail ○ Coffee maker ○ Hair dryer ○ Iron and ironing board ○ In-room dining 	

<u>Condition & Renovations</u>	<u>Historical Performance</u>
<p>The Portofino completed an \$11 million renovation of its lobby and guestrooms as well as added a new restaurant and five suites in 2008. The hotel is in good condition.</p>	<p>In 2014, the Portofino performed below the competitive market average in terms of occupancy and similar to the market average in terms of average daily rate.</p>

**Competitive Property Number Three
The Belamar Hotel**

<u>Location</u>	<u>Description</u>
Address: 3501 North Sepulveda Boulevard Manhattan Beach, CA 90266 Distance from the Subject: 0.8 miles west	Guestrooms: 127 Year Opened: 1962

<u>Facilities & Amenities</u>	<u>Picture</u>
<ul style="list-style-type: none"> • Approximately 4,500 SF of indoor meeting space including a 2,000 square foot ballroom • Single Second Story Restaurant • Outdoor Pool and whirlpool spa • Business center • Beach Cruiser Bicycle Restaurant • Parking for a Fee • Adrenaline Fitness Center • Room Amenities: <ul style="list-style-type: none"> ○ Complimentary WiFi ○ Room Service ○ Refrigerator ○ Coffee maker ○ Hairdryer ○ Work desk with ergonomic chair ○ Iron and ironing board ○ Complimentary shoe shine ○ Bathrobes 	

<u>Condition & Renovations</u>	<u>Historical Performance</u>
<p>The hotel completed an extensive \$2.5 million renovation in 2008 that included guestroom renovations, lobby improvements, new signage, technology upgrades as well as meeting space improvements. Due to this overhaul, the property is in very good condition.</p>	<p>In 2014, the Belamar Hotel performed above the competitive market average in terms of occupancy and below the competitive market average in terms of average daily rate.</p>

**Competitive Property Number Four
Beach House Hermosa Beach**

<u>Location</u>	<u>Description</u>
Address: 1300 The Strand Hermosa Beach, CA 90254 Distance from Subject: 3.7 miles southwest	Guestrooms: 96 Year Opened: 1998

<u>Facilities & Amenities</u>	<u>Picture</u>
<ul style="list-style-type: none"> ● Approx. 2,285 SF of meeting space ● Fitness center ● Outdoor whirlpool ● Business services ● Spa services ● Volleyball courts on the beach ● Complimentary continental breakfast for leisure guests ● Room Amenities: <ul style="list-style-type: none"> ○ All rooms feature full or partial ocean views ○ Separate living room and bedroom areas ○ Flat panel television in bedroom and living room with Cable TV and on-demand movies ○ Blu-ray DVD/CD player ○ Sofa bed ○ Fireplace ○ Patio or balcony ○ Custom beds with down comforters and Frette linen ○ Refrigerator and microwave ○ Wireless internet access ○ Iron and ironing board ○ Hair dryer ○ Coffee maker ○ In-room dining 	

<u>Condition & Renovations</u>	<u>Historical Performance</u>
<p>The Beach House completed a lobby renovation in 2011 and has been continuously improved and maintained. This year, all bathrooms were renovated and the guestrooms had work done on the balconies as well as new paint jobs. The property is in very good condition.</p>	<p>In 2014, the Beach House Hermosa Beach performed above the competitive market average in terms of both occupancy and average daily rate.</p>

**Competitive Property Number Five
The Shade Manhattan Beach**

<u>Location</u>	<u>Description</u>
Address: 1221 North Valley Drive Manhattan Beach, CA 90266 Distance from Subject: 2.2 miles southwest	Guestrooms: 38 Year Opened: 2005

Facilities & Amenities

- Approx. 5,527 SF of indoor and outdoor meeting and events space
- Complimentary breakfast buffet
- Zinc Restaurant
- Skydeck rooftop deck and lounge
- Complimentary high speed internet access
- Business center
- Concierge
- Complimentary strand cruiser bicycles
- Valet parking
- Room Amenities:
 - Tempur-Pedic bed and Luxurious Mascioni linens
 - Pillow library for guests to choose their pillows
 - Chromatherapy lighting
 - Spa services provided by Trilogy
 - Balconies in most rooms
 - Two-person spa tub by Sanjinet
 - 32" Flat panel television with Cable TV and DVD/CD player
 - Work desk and chair
 - High-speed internet access
 - Luxurious bath amenities
 - Mini Bar
 - Iron and ironing board
 - Hair dryer
 - Two telephones with personal voicemail
 - Lavazza espresso machine
 - Martini shaker and blender
 - iPod docking station/alarm clock radio

Picture



<u>Condition & Renovations</u>	<u>Historical Performance</u>
The Shade Hotel opened in 2005 and has been continuously maintained. The hotel is in very good condition.	In 2014, the Shade performed similar to the market average in terms of occupancy and above the market average in terms of average daily rate.

**Competitive Property Number Six
Jamaica Bay Inn**

<u>Location</u>	<u>Description</u>
<p>Address: 4175 Admiralty Way Marina del Rey, California</p> <p>Distance from Subject: 9.7 miles northwest</p>	<p>Guestrooms: 111</p> <p>Year Opened: 2011</p>
<u>Amenities</u>	<u>Picture</u>
<ul style="list-style-type: none"> • Beachside Restaurant & Bar • Approximately 1,000 square feet of meeting facilities • Swimming pool • Fitness center • Business services • In-room dining • Bicycle rentals • Room Amenities: <ul style="list-style-type: none"> ○ Private balconies ○ High speed wireless internet ○ Flat screen television ○ Coffee and tea maker ○ Work desk with ergonomic chair ○ Iron and ironing board ○ Hair dryer ○ Refrigerator 	
<u>Condition & Renovations</u>	<u>Historical Performance</u>
<p>Formerly a Best Western, the property was fully remodeled and reopened in 2011 as the Jamaica Bay Inn. The property is in very good condition.</p>	<p>In 2014, the Jamaica Bay Inn performed slightly below the competitive market average in terms of occupancy and above the market average in terms of average daily rate.</p>

**Competitive Property Number Seven
Residence Inn Manhattan Beach**

<u>Location</u>	<u>Description</u>
Address: 1700 N. Sepulveda Blvd Manhattan Beach, California 90266 Distance from Subject: 1.2 miles south	Guestrooms: 176 Year Opened: 1985

<u>Facilities & Amenities</u>	<u>Picture</u>
<ul style="list-style-type: none"> • Approximately 665 SF of meeting space • Complimentary Breakfast • Outdoor swimming pool and deck • Sundry/convenience store • Exercise Facilities • Bike Rentals • Room Amenities: <ul style="list-style-type: none"> ○ Full Kitchens + Living Area ○ Flat screen LCD television ○ DVD/CD Player ○ Complimentary wireless internet access ○ Grocery Delivery Service ○ Work desk ○ Twice-daily maid service 	

<u>Condition & Renovations</u>	<u>Historical Performance</u>
The Residence Inn Manhattan Beach completed a renovation in 2014 that included rooms and public spaces. The property is in good condition.	In 2014, the Residence Inn performed above the competitive market average in terms of occupancy and below the market average in terms of average daily rate.

Additions to Supply

As will be discussed later, there are currently four hotel developments in addition to the proposed subject to be located throughout the city which are being considered. The city of Manhattan Beach is currently evaluating four different potential hotel sites including, a location on Highland and Rosecrans, a proposed boutique hotel on Highland, and two additional sites currently improved by a Vons and a Fry's. Additionally, a potential expansion of the Shade Hotel in Manhattan Beach is being considered. We will discuss these additions in further detail below, in reference to an analysis of future market trends in the community of Manhattan Beach. We have not included these hotels as additions to supply because of their speculative nature and the fact that they lack one or more of the following criteria: specific development programs and timeline, branding, operator, financing, or planning and permitting.

Additionally, we have considered the addition of the Shade Hotel in neighboring Redondo Beach.

- ❑ **Shade Hotel** – The 54-room Shade Hotel, to be located at 655 Harbor Drive, broke ground in March 2013 and is expected to open in April of 2016. The hotel will contain conference space for up to 60 people, event/wedding space for up to 150 guests, a rooftop Skydeck pool area and a Zinc@Shade Lounge serving breakfast, lunch, and dinner. The hotel is being developed by Zislis Properties, and will be the second Shade Hotel in the South Bay.

We have included this hotel as an addition to supply as it falls within the competitive market, but we do not foresee a significant impact on the proposed hotel.

HOTEL ROOMS DEMAND

Demand for hotel rooms is categorized in three ways:

- **Demonstrated Demand**: the demand already captured at competitive hotels;
- **Induced Demand**: the demand that does not presently seek accommodations in the competitive market, but could be persuaded to do so through marketing efforts, room rates, facilities, services and amenities.
- **Unsatisfied Demand**: the demand that seeks accommodations in the market but is not satisfied due to one of a number of factors: sell-outs during peak season; lack of a particular type of accommodation; lack of meeting space; or high room rates.

Historical Performance of the Competitive Supply

The aggregate average annual available and occupied rooms, resulting occupancy levels, average daily rate, and revenue per available room (RevPAR) for this sample set between 2010 and 2014, and year-to-date through August 2015 and 2014, are presented in the following table.

Historical Market Performance of the Competitive Supply									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2010	358,795	N/A	287,497	N/A	80.1%	\$149.58	N/A	\$119.86	N/A
2011	399,310	11.3%	318,399	10.7%	79.7	157.49	5.3%	125.57	4.8%
2012	399,310	0.0	331,586	4.1	83.0	162.51	3.2	134.95	7.5
2013	399,310	0.0	331,009	-0.2	82.9	174.07	7.1	144.30	6.9
2014	399,310	0.0	344,573	4.1	86.3	187.80	7.9	162.06	12.3
CAAG	2.7%		4.6%			5.9%		7.8%	
8/14 ytd	266,085	N/A	237,063	N/A	89.1%	\$191.44	N/A	\$170.56	N/A
8/15 ytd	266,085	0.0%	231,797	-2.2%	87.1%	207.50	8.4%	180.76	6.0%

Source: PKF Consulting USA

Supply in the competitive market increased from 2010 to 2011 as the opening of the Jamaica Bay Inn in 2011 added 111 rooms to the market. The Jamaica Bay Inn was previously a Best Western and was repositioned and renamed after undergoing a multi-million dollar renovation. Over the same period, demand, as measured in occupied room nights, increased at a rate of 4.6 percent annually, attributed primarily to the continued recovery in the lodging sector since the economic downturn and slowed, more recently, by the industry-wide focus on driving rate at the expense of occupancy in certain cases. Demand growth as measured by occupied room nights is constrained as this market essentially operates at capacity levels, generating a substantial amount of unsatisfied demand during the peak season. Market occupancy began at 80.1 percent in 2010 as signs of an economic recovery emerged, and it has steadily increased since 2010 aside from a slight drop in 2013. In 2014, the occupancy jumped to 86.3 percent. Year-to-date through August 2015, occupancy has dropped by 2.2 percent as the market has seen significant increases in average daily rate at the expense of occupancy.

The average daily room rate (ADR) of the competitive set has increased by 5.9 percent on an annual basis over the last five years attributable to steady ADR growth since 2010 and a notable jump in ADR over the past two years as hotels made a concerted push to drive rate growth in light of continued growth in demand. Discussions with management of the competitive properties revealed that while most hotels in the set lowered rates significantly in an effort to drive occupancy during the recession, signs of recovery every year since 2010 compelled hotels to continually raise rates slightly to adjust for increases in occupancy. In 2011 and 2012, the market's ADR continued to improve, posting increases of 5.3 percent and 3.2 percent each year, and then grew at nearly eight percent for two years, ending the period with an ADR of \$187.80. With occupancy nearing pre-recession levels in 2014, rate growth became the primary goal. Year-to-date through August 2015, ADR has posted an increase of 8.4 percent over the same period last year.

The market's RevPAR (revenue per available room, a combination of occupancy and average daily room rate) increased by a compound average rate of 7.8 percent over the historical period. RevPAR has shown positive growth every year since 2010 with a significant increase in 2014 as rates soared. Year-to-date through August 2015, RevPAR has posted an increase of 6.0 percent from the same period last year.

MIX OF DEMAND

The demand captured by the competitive supply is derived from the transient and group market segments. The following table summarizes the 2014 mix of demand for the competitive market.

Competitive Market 2014 Mix of Demand		
Market Segment	Room Nights	Ratio
Transient	266,600	77%
Group	78,000	23
Total	345,000	100%

Source: PKF Consulting USA

The competitive market's demand is derived primarily from the transient segments with the group segment comprising a very small portion. As such, its source of demand varies during the weekdays versus weekends, holiday periods, and summers.

Using the historical growth in the market as a base, and taking into account the current demonstrated and future projected economic conditions, we have estimated future growth in overall market demand. Each market segment is discussed in the following paragraphs, followed by a discussion and summary table setting forth our estimated growth in supply and demand.

Transient Market Segment

In 2014, the transient segment accounted for 77 percent or approximately 266,600 room nights of captured demand in the competitive market. The properties in the competitive set capture a decent amount of commercial demand, based primarily upon their location near the commercial and industrial districts in the South Bay, coupled with a significant amount of leisure demand. While the transient market segment was deeply impacted during the recession when corporations were cutting down on spending and leisure travelers were not travelling, transient demand has continually grown since 2012 and for the remainder of our projection period we estimate that the commercial market segment will experience growth of 3.0 percent annually, commensurate with the general level of economic growth.

Group Market Segment

The group market segment consists of room nights associated with corporate and social meetings. In this competitive market, demand consists of incentive meetings for sales and marketing teams, conferences, educational sessions for professionals, and social and fraternal retreats (wedding parties and reunions). Also, with numerous major industrial and commercial developments in the neighboring areas, larger functions and corporate retreats are a market segment that this set can continue to capture. As outlined in the table, the group meeting segment accounted for 23 percent of the total occupied rooms in 2014, or 78,000 total nights. Similar to the commercial and leisure segments, the group segment has also seen marked improvement in the last year. We estimate that the group market segment

will experience growth of 3.0 percent in 2015 and each year thereafter for the remainder of our projection period, commensurate with the general level of economic growth.

Summary of Demand Growth and Market Occupancies

This competitive set operates at very strong occupancy levels. The competitive market has steadily grown in occupancy since 2010, with a slight drop in 2013, and ultimately peaking at 86.3 percent in 2014. We estimate the market occupancy will decrease to 84 percent in 2015 as properties focus on driving rate. In 2016, we project market occupancy to drop slightly more to 83 percent, where it will remain for the projection period, with demand strong enough to quickly absorb the new supply provided by the proposed hotel without affecting occupancy. While the market may fluctuate above and below this number, we are of the opinion that an occupancy rate of 83 percent is appropriate for this particular market considering the supply and demand patterns, seasonality, and mix of business within the competitive market. This stabilized occupancy is in line with the average historical occupancy of the competitive market and the current market dynamics. The projected future growth in supply and demand is presented in the following table.

Proposed Hotel at Manhattan Beach Competitive Market Estimated Future Growth in Lodging Supply and Demand 2014-2021								
	2014	2015	2016	2017	2018	2019	2020	2021
ROOMS SUPPLY	1,094							
Additions/(Deletions) to Supply								
Proposed Parkview Hotel					150			
Shade Redondo Beach			41	13				
Cumulative Rooms Supply	1,094	1,094	1,135	1,148	1,298	1,298	1,298	1,298
Total Annual Rooms Supply	399,310	399,310	414,275	419,020	473,770	473,770	473,770	473,770
Growth Over the Prior Year	0.0%	0.0%	3.7%	1.1%	13.1%	0.0%	0.0%	0.0%
DEMONSTRATED DEMAND IN BASE YR								
Transient	266,614	77%						
Group	77,959	23%						
TOTAL DEMONSTRATED DEMAND	344,573	100%						
INDUCED/(UNSATISFIED) DEMAND								
Transient		0	0	0	12,000	6,000	0	0
Group		0	0	0	2,000	1,000	0	0
TOTAL INDUCED/(UNSATISFIED) DEMAND		0	0	0	14,000	7,000	0	0
GROWTH RATES								
Transient		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Group		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
PROJECTED DEMAND								
Transient								
Demonstrated	266,614	274,612	282,851	291,336	300,076	321,439	337,262	347,380
Induced/(Unsatisfied)	0	(15,080)	(16,797)	(22,235)	5,353	(15,471)	(31,331)	(41,449)
Total	266,600	259,500	266,100	269,100	305,400	306,000	305,900	305,900
Growth Over Prior Year	N/A	-2.7%	2.5%	1.1%	13.5%	0.2%	0.0%	0.0%
Group								
Demonstrated	77,959	80,298	82,706	85,188	87,743	92,436	96,239	99,126
Induced/(Unsatisfied)	0	(4,409)	(4,912)	(6,502)	56	(5,174)	(8,940)	(11,828)
Total	78,000	75,900	77,800	78,700	87,800	87,300	87,300	87,300
Growth Over Prior Year	N/A	-2.7%	2.5%	1.2%	11.6%	-0.6%	0.0%	0.0%
Total Market Demand	344,600	335,400	343,900	347,800	393,200	393,300	393,200	393,200
Growth Over Prior Year	N/A	-2.7%	2.5%	1.1%	13.1%	0.0%	0.0%	0.0%
Market Occupancy	86%	84%	83%	83%	83%	83%	83%	83%
Source: PKF Consulting USA								

PROJECTED MARKET PERFORMANCE OF THE SUBJECT HOTEL

Penetration Analysis

Our estimates of occupancy are based on our survey of competitive hotels, an analysis of the segmentation of demand in the market area, and our assessment of the subject property's market position. The "penetration rate" of a hotel is the percentage of room nights captured relative to the property's "fair share." The hotel's "fair share" is determined by dividing the subject property's number of guest rooms by the total number of guest rooms in the competitive market (including the subject property). Factors indicating a hotel would possess competitive advantages suggest a market penetration in excess of 100 percent of fair market share, while competitive weaknesses are reflected in penetration rates of less than 100 percent. However, other factors besides competitive weaknesses could result in penetrations of less than 100 percent. The actual penetration of each market segment by the subject property may deviate from fair market share for the following reasons:

- The competitive advantages or disadvantages of the subject hotel versus the competition taking into consideration such factors as location, room rate structure, room size, quality and extent of amenities offered, chain affiliation, quality of management, marketing efforts and image;
- The characteristics, composition and needs of each market segment;
- The restraint on demand captured due to capacity constraints during certain periods of the week or season, or due to the accommodation of certain market segments; and,
- Management decisions concerning target markets.

Estimated occupancy levels for the subject hotel have been projected on the basis of a penetration analysis. Our projections are based on our knowledge of the market as of the completion of this study as well as interviews with hotel managers from the competitive properties and several large employers in the area.

Penetration of Subject

Our estimates of subject penetration by each segment of demand are presented in the paragraphs below. We have assumed a January 2018 opening date.

Transient Demand

Transient demand is made up of both corporate and leisure travelers. Corporate travelers in this market select hotel accommodations based on room and overall hotel amenities, price, location relative to their destination, and area amenities. Additionally, the properties in the competitive market attract a large amount of leisure business due to their coastal location. Due to the subject's location relative to leisure amenities and recreational activities such as shopping and golf, we anticipate the subject to over penetrate the transient market on a stabilized basis. We project a transient market penetration of 95

percent upon opening in 2018. Subsequently, we project the subject's penetration of this segment to increase to 99 percent in 2019 and stabilizing at 104 percent in 2020 and beyond. The subject will feature amenities and facilities that will be pleasing to commercial and leisure travelers and is anticipated to be a very attractive lodging option with its Manhattan Beach location relative to local entertainment options.

Group Demand

The hotels in the competitive market capture a small amount of group demand as only a couple of the properties offer large meeting space. The subject hotel should be well positioned to attract small groups to the property. Based on the subject's facilities, size, and amount of meeting space as compared to the large properties in the competitive set, we have estimated that the subject will underpenetrate the group market, while still attracting enough demand to remain competitive within this segment. We estimate the subject will penetrate the market at 60 percent in 2018, increasing to 65 percent in 2019 and stabilizing at 70 percent in 2020 and for the remainder of our projection period.

Overall Mix, Penetration, and Occupancy

The estimated stabilized market mix and penetration for the subject hotel are presented in the following table.

Proposed Manhattan Beach Hotel			
Stabilized Mix of Demand and Market Penetration			
Market Segment	Room Nights	Ratio	Penetration
Transient	36,800	84%	104%
Group	7,100	16	70
Total	43,900	100%	97%

Source: PKF Consulting

Combining our estimates of the two penetration rates for the proposed hotel, we estimate that the subject property will achieve below its fair share of market demand upon its opening in 2018, with the penetration rate estimated at 87 percent. This equates to an occupancy level of 72 percent during its first year of operation. By the second year of operation, the subject's penetration rate is expected to increase to 92 percent of its fair share, equal to an occupancy of 76 percent. In 2020, we expect the subject's penetration rate to be 97 percent which equates to a stabilized occupancy of 80 percent. The following table sets forth projected penetration for the subject from 2018 through 2022.

Proposed Manhattan Beach Hotel Market Penetration and Projected Occupancy					
	2018	2019	2020	2021	2022
TOTAL ROOMS AVAILABLE					
Proposed Manhattan Beach Hotel	54,750	54,750	54,750	54,750	54,750
Competitive Market	473,770	473,770	473,770	473,770	473,770
	=====	=====	=====	=====	=====
Fair Share of Supply	11.6%	11.6%	11.6%	11.6%	11.6%
	=====	=====	=====	=====	=====
ESTIMATED TOTAL MARKET DEMAND					
Transient	305,400	306,000	305,900	305,900	305,900
Group	87,800	87,300	87,300	87,300	87,300
	-----	-----	-----	-----	-----
TOTAL	393,200	393,300	393,200	393,200	393,200
	-----	-----	-----	-----	-----
FAIR SHARE OF DEMAND					
Transient	35,300	35,400	35,400	35,400	35,400
Group	10,100	10,100	10,100	10,100	10,100
	-----	-----	-----	-----	-----
TOTAL	45,400	45,500	45,500	45,500	45,500
	-----	-----	-----	-----	-----
SUBJECT PENETRATION					
Transient	95%	99%	104%	104%	104%
Group	60%	65%	70%	70%	70%
	-----	-----	-----	-----	-----
ROOM NIGHTS CAPTURED					
Transient	33,500	35,000	36,800	36,800	36,800
Group	6,100	6,600	7,100	7,100	7,100
	-----	-----	-----	-----	-----
TOTAL CAPTURED DEMAND	39,600	41,600	43,900	43,900	43,900
	=====	=====	=====	=====	=====
MARKET SHARE CAPTURED	10.1%	10.6%	11.2%	11.2%	11.2%
OVERALL MARKET PENETRATION	87%	92%	97%	97%	97%
	-----	-----	-----	-----	-----
SUBJECT OCCUPANCY	72%	76%	80%	80%	80%
	-----	-----	-----	-----	-----
MARKET MIX					
Commercial	85%	84%	84%	84%	84%
Leisure	15%	16%	16%	16%	16%
	-----	-----	-----	-----	-----
TOTAL	100%	100%	100%	100%	100%
	-----	-----	-----	-----	-----
Source: PKF Consulting USA					

AVERAGE DAILY RATE

Competitive Market

We have also estimated the average daily rate (ADR) of the competitive market based upon our analysis of the historical rates achieved, interviews with management of the competitive properties, the anticipated impact of the new supply entering the market, and the changing economic conditions.

The market's ADR has experienced five years of growth ending 2014 at \$187.80. We have estimated that in 2015, the market's ADR will grow by close to 8.1 percent. From 2016 through 2018 we estimate that strong rate growth will continue. From 2019 and beyond we estimate the market ADR will grow at the general level of inflation, or roughly 3.0 percent per year.

Based on the foregoing analysis, the following table summarizes our estimates of future supply, accommodated demand, occupancy, average daily rate, and RevPAR for the competitive market from 2015 to 2022.

Projected Market Performance of the Competitive Supply										
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change	
2015	399,310	0.0%	335,400	-2.7%	84%	\$203.00	8.1%	\$170.51	5.2%	
2016	414,275	3.7%	343,900	2.5%	83	215.00	5.9	178.48	4.7	
2017	419,020	1.1%	347,800	1.1%	83	226.00	5.1	187.59	5.1	
2018	473,770	13.1%	393,200	13.1%	83	236.00	4.4	195.87	4.4	
2019	473,770	0.0%	393,300	0.0%	83	243.00	3.0	201.73	3.0	
2020	473,770	0.0%	393,200	0.0%	83	250.00	2.9	207.48	2.9	
2021	473,770	0.0%	393,200	0.0%	83	258.00	3.2	214.12	3.2	
2022	473,770	0.0%	393,200	0.0%	83	265.00	2.7	219.93	2.7	
CAAG	2.5%		2.3%			3.9%		3.7%		

Source: PKF Consulting USA

Average Daily Rate and Yield for the Subject

Our derivation of the average daily rate for the subject property in a stabilized year of operation is based on the historical average daily rates achieved by the market and information concerning the other hotel properties in the competitive supply. Considerations were also given to the comparison of the other competitive properties with the subject in terms of quality of facility, location, and mix of demand.

As discussed herein, the subject is anticipated to be a midsize, high-quality hotel with an attractive design. Further, the subject is anticipated to offer inviting and desirable facilities and amenities. Therefore, we have estimated that the subject will achieve an opening average daily rate of \$240.00 in 2018. In consideration of the proposed amenities and facilities of the subject, as well as its expected positioning in the market, we find this rate reasonable, placing the subject slightly above the competitive market average but within the range of the comparable properties in the competitive set. This rate is expected to increase at a compound average annual rate of 3.0 percent throughout our projections.

This opening rate equates to a stabilized average daily room rate of \$220.00 stated in 2015 dollars.

The following table outlines our estimates of average daily rate and the resulting revenue yield for the subject. It should be noted that figures are rounded to the nearest dollar amounts.

Projected Market Performance of the Subject Hotel											
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Occupancy Percentage	Average Daily Rate	Percent Change	REVPAR	Percent Change	Market Penetration	Revenue Yield
2018	54,750	N/A	39,600	N/A	72%	\$240.00	3.0%	\$173.59	N/A	87%	89%
2019	54,750	0.0%	41,600	5.1%	76	248.00	3.0	188.43	8.6%	92	93
2020	54,750	0.0	43,900	5.5%	80	255.00	3.0	204.47	8.5	97	99
2021	54,750	0.0	43,900	0.0%	80	263.00	3.0	210.88	3.1	97	98
2022	54,750	0.0	43,900	0.0%	80	271.00	3.0	217.29	3.0	97	99
CAAG	0.0%		2.6%			3.1%		5.8%			

Source: PKF Consulting USA

Section V

STATEMENTS OF ESTIMATED ANNUAL OPERATING RESULTS

STATEMENTS OF ESTIMATED ANNUAL OPERATING RESULTS

BASIS OF PROJECTIONS

To prepare estimates of future operating results for the proposed subject as of January 1, 2018, the starting point or basis is the best estimate of results that could be achieved with good management in a representative year or stabilized market, calculated in 2015 dollars.

We estimate that during a representative year, the subject property could achieve a stabilized occupancy of 80 percent at an average daily room rate of \$220.00, stated in 2015 dollars. From this base, we considered the effects of inflation, development, and occupancy levels for the projection period starting January 1, 2018 through December 31, 2027, reflecting roughly ten years of operation. The projections are presented on a calendar year basis and the underlying rationale and assumptions used in preparing these estimates are presented in this section.

The estimates of revenues, costs and expenses are based on the proposed facilities and services and the operational characteristics thereof. The basis for our projections is the operating results of lodging properties with similar characteristics that are believed to operate with efficient management and proper control over costs and expenses.

STATEMENT OF ESTIMATED ANNUAL OPERATING RESULTS

The *Uniform System of Accounts for Hotels*, recommended by the American Hotel and Motel Association and utilized throughout the industry, has been used in the classification of income and expenses for this report. In conformity with this system of account classifications, only direct operating expenses are charged to the operating departments of the subject. The general overhead items that are applicable to operations as a whole are classified as deductions from income and include administrative and general expenses, marketing expenses, utility costs, and property operations and maintenance. Additional costs for management fees, fixed charges, which include real estate taxes and insurance, and reserves for replacement are deducted to derive the net operating income.

Income and Expense Estimates

Data from the following sources have been used as a basis for the income and expense estimates.

- The market performance (average daily rate and occupancy levels) of the competitive hotels to the subject; and,
- Comparable data from five hotels with similar average daily rate, occupancy, size, and market positioning from PKF Consulting's *Trends in the Hotel Industry* survey (referred to as Comparables "A", "B", "C", "D", and "E".)

Operating Statistics of Comparable Hotels

An analysis was performed on the operating results of five similarly sized hotels located within Southern California. All are considered to be comparable with the proposed subject property. The comparable properties range in size from under 100 rooms to 385 rooms, with an average room count of 185 rooms. Together these hotels had a composite occupancy of 83.2 percent and an average daily rate of \$186.18. The statistical information is taken from actual financials for the comparable hotels for the most recent calendar year available. For reasons of confidentiality, we cannot disclose the identity of the comparable hotels.

The following pages contain the operating results of the comparable hotels as mentioned above.

Proposed Hotel Manhattan Beach Operating Results of Comparable Hotels		Hotel A		Hotel B		Hotel C				
		Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.
Revenues										
Rooms		55.1%	\$97,456	\$294.38	65.0%	\$50,761	\$163.88	68.2%	\$62,135	\$210.35
Food & Beverage		41.0%	72,421	218.76	28.8%	22,514	72.68	25.6%	23,298	78.87
Other Operated Departments		3.9%	6,834	20.64	6.1%	4,798	15.49	6.3%	5,702	19.30
Total Revenues		100.0%	176,710	533.78	100.0%	78,073	252.05	100.0%	91,135	308.53
Departmental Expenses										
Rooms		26.7%	26,005	78.55	33.5%	16,997	54.87	23.7%	14,739	49.90
Food & Beverage		74.4%	53,909	162.84	82.1%	18,491	59.70	84.3%	19,651	66.53
Other Operated Departments		14.5%	992	3.00	60.5%	2,903	9.37	74.2%	4,231	14.32
Total Departmental Expenses		45.8%	80,905	244.39	49.2%	38,390	123.94	42.4%	38,621	130.75
Departmental Profit		54.2%	95,805	289.40	50.8%	39,682	128.11	57.6%	52,514	177.78
Undistributed Expenses										
Administrative & General		12.9%	22,852	69.03	8.4%	6,539	21.11	9.0%	8,190	27.73
Marketing		1.8%	3,152	9.52	6.4%	4,966	16.03	6.4%	5,820	19.70
Property Operation and Maintenance		2.8%	4,999	15.10	4.0%	3,119	10.07	2.7%	2,450	8.29
Utility Costs		1.7%	3,088	9.33	2.5%	1,924	6.21	3.4%	3,057	10.35
Total Undistributed Operating Expenses		19.3%	34,090	102.98	21.2%	16,548	53.42	21.4%	19,517	66.07
Gross Operating Profit		34.9%	61,715	186.42	29.6%	23,134	74.69	36.2%	32,997	111.71
Base Management Fee		0.9%	1,579	4.77	3.0%	2,342	7.56	3.5%	3,190	10.80
Fixed Expenses										
Property Taxes		2.5%	4,457	13.46	3.3%	2,582	8.33	4.3%	3,890	13.17
Insurance		0.6%	1,046	3.16	1.7%	1,292	4.17	0.5%	436	1.47
Total Fixed Expenses		3.1%	5,502	16.62	5.0%	3,874	12.51	4.7%	4,326	14.64
Net Operating Income Before Reserve		30.9%	54,633	165.03	21.7%	16,918	54.62	28.0%	25,481	86.26
Source: PKF Consulting USA										

Proposed Manhattan Beach Hotel Operating Results of Comparable Hotels		Hotel D		Hotel E		Weighted Average			
		Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.		
Revenues									
Rooms	66.5%	\$53,778	\$188.62	47.1%	\$58,385	\$187.16	60.9%	\$56,540	\$186.18
Food & Beverage	25.0%	20,241	70.99	37.8%	46,749	149.86	30.7%	28,472	93.75
Other Operated Departments	8.4%	6,820	23.92	15.1%	18,694	59.93	8.5%	7,857	25.87
Total Revenues	100.0%	80,839	283.53	100.0%	123,828	396.96	100.0%	92,869	305.80
Departmental Expenses									
Rooms	27.5%	14,764	51.78	23.5%	13,728	44.01	28.2%	15,972	52.59
Food & Beverage	80.0%	16,194	56.80	68.8%	32,181	103.16	77.5%	22,075	72.69
Other Operated Departments	46.6%	3,179	11.15	17.8%	3,335	10.69	40.5%	3,180	10.47
Total Departmental Expenses	42.2%	34,137	119.73	39.8%	49,244	157.86	44.4%	41,227	135.75
Departmental Profit	57.8%	46,701	163.80	60.2%	74,583	239.09	55.6%	51,642	170.05
Undistributed Expenses									
Administrative & General	12.1%	9,779	34.30	7.7%	9,495	30.44	9.3%	8,647	28.47
Marketing	7.6%	6,136	21.52	5.9%	7,353	23.57	6.1%	5,684	18.72
Property Operation and Maintenance	3.9%	3,152	11.06	3.6%	4,445	14.25	3.6%	3,320	10.93
Utility Costs	6.0%	4,852	17.02	2.4%	3,003	9.63	3.2%	2,933	9.66
Total Undistributed Operating Expenses	29.6%	23,919	83.89	19.6%	24,296	77.89	22.2%	20,584	67.78
Gross Operating Profit	28.2%	22,782	79.91	40.6%	50,287	161.21	33.4%	31,058	102.27
Base Management Fee	3.3%	2,660	9.33	3.0%	3,718	11.92	3.0%	2,757	9.08
Fixed Expenses									
Property Taxes	3.3%	2,686	9.42	3.9%	4,883	15.65	3.6%	3,303	10.88
Insurance	1.8%	1,464	5.13	2.6%	3,208	10.29	1.6%	1,504	4.95
Total Fixed Expenses	5.1%	4,149	14.55	6.5%	8,092	25.94	5.2%	4,807	15.83
Net Operating Income Before Reserve	19.8%	15,973	56.02	31.1%	38,478	123.35	25.3%	23,494	77.36
Source: PKF Consulting USA									

REPRESENTATIVE YEAR ESTIMATE

Presented in the following text is a brief discussion of the basis used in developing our estimate of the Representative Year Operating Statement for the subject. A “representative year” illustrates the hotel’s performance as if it were at a stabilized occupancy today, after the anticipated real growth in room rate, with all revenues and expenses expressed in current value dollars.

Departmental Revenues and Expenses

In the Uniform System of Accounts, revenue to the facility is categorized by the department from which it is derived. In the case of the subject, this includes income from rooms, food and beverage, other operated departments, and the category of rentals and other income. In the Uniform System of Accounts, only direct operating expenses associated with each department are charged to the operating departments. General overhead items which are applicable to the overall operation of the facility are classified as undistributed operating expenses.

Rooms Department

Rooms revenue is based on the number of occupied rooms multiplied by the average daily room rate for each of the subject’s first ten years as presented in this report. As indicated in our previous analysis, we have estimated the stabilized average rate of the subject to be \$220.00, stated in 2015 dollars. Stabilized occupancy is estimated at 80 percent; therefore, gross rooms revenue in a representative year is calculated as follows:

$$150 \text{ rooms} \times 365 \text{ days} \times 80\% \text{ occupancy} \times \$220.00/\text{day} = \$9,636,000 \text{ (rounded)}$$

The following table summarizes the average daily room rates, occupancies, and rooms revenues estimated for the projection period.

Year	Estimated Rooms Revenue		
	Average Daily Rate	Annual Occupancy	Rooms Revenue
2018	\$240.00	72.0%	\$ 9,461,000
2019	248.00	76.0	10,319,000
2020	255.00	80.0	11,169,000
2021	263.00	80.0	11,519,000
2022	271.00	80.0	11,870,000
2023	279.00	80.0	12,220,000
2024	287.00	80.0	12,571,000
2025	296.00	80.0	12,965,000
2026	305.00	80.0	13,359,000
2027	314.00	80.0	13,753,000

Rooms Expense

Rooms expense consists of salaries and wages, employee benefits, commissions, contract cleaning, guest transportation, laundry and dry cleaning, linen, operating supplies, reservation costs, uniforms, contract services, and other items related to the rooms

department. The comparable hotels had rooms expenses ranging from \$44.01 to \$78.55 per occupied room (POR), with ratios to rooms revenue ranging from 23.5 percent to 33.5 percent. In a representative year, we estimate a rooms expense of \$55.00 per occupied room, or a ratio to rooms revenue of 25.0 percent. This incorporates the projected services and amenities at the property, and is within the range of comparables on a POR basis and on a ratio to total revenue basis.

Comparables	Rooms Expense	
	Per Occupied Room	Ratio to Rms Revenue
A	\$78.55	26.7%
B	54.87	33.5%
C	49.90	23.7%
D	51.78	27.5%
E	44.01	23.5%
Weighted Average	52.59	28.2%
Subject Stabilized Year	\$55.00	25.0%

Food and Beverage Revenue and Expense

Food and Beverage revenue is typically generated by the sale of meals to both hotel guests and outside patrons in the restaurants and lounges; room service; banquet revenues, including banquet room and audio/visual rental income; and other associated revenues.

Comparables	Food & Beverage Revenue	
	Total Amount	Per Occupied Room
A	\$2,751,994	\$218.76
B	8,667,699	72.68
C	3,657,848	78.87
D	3,704,032	70.99
E	7,526,666	149.86
Weighted Average	N/A	93.75
Subject Stabilized Year	\$3,723,000	\$85.00

Food and beverage revenue will vary depending on the number of food and beverage outlets, and the amount of meeting space. Food and beverage revenue at the subject will be generated from the restaurant and in-room dining, as well as meetings and special events held at the hotel. The comparable properties ranged in food and beverage revenue from \$70.99 to \$218.76 per occupied room. Based on the assumed restaurant and meeting facilities for the subject, as discussed earlier, we project food and beverage revenue of approximately \$85.00 per occupied room. This equates to a total food and beverage revenue of approximately \$3,723,000 for the subject during a stabilized year, stated in 2015 dollars.

Food and Beverage expense includes the cost of food and beverages, payroll and related expenses, and other items such as laundry, linen, china, glassware, silverware, uniform costs, supplies, and other miscellaneous items.

Food & Beverage Expense	
<u>Comparables</u>	Ratio to F&B Rev.
A	74.4%
B	82.1%
C	84.3%
D	80.0%
E	68.8%
Weighted Average	77.5%
Subject Stabilized Year	75.0%

We estimate the subject to achieve a 75.0 percent food and beverage expense ratio for a stabilized year of operation, which is reasonable given our assumptions of the subject's food and beverage facilities and is on the lower end but within the range of properties with comparable facilities.

Other Revenue and Expense

Other Operated Departments can vary significantly among the comparable properties and the subject depending on the nature of the additional revenue generators. Other operated department revenue is typically generated from guest laundry, business center, health spa, parking, and/or other recreational amenities. Other operated departments at the subject property will include guest services, business services, telecommunications revenue, in room movies, parking, spa revenue, and other miscellaneous income.

Other operated departments revenue at the comparable hotels ranged from \$15.49 to \$59.93 per occupied room. Based upon the various components of this line item, we have estimated the income for the subject to be approximately \$16.00 per occupied room in a representative year of operations, which is on the lower end of the range of the comparables.

Other Operated Departments Revenue	
<u>Comparables</u>	Per Occupied Room
A	\$20.64
B	15.49
C	19.30
D	23.92
E	59.93
Weighted Average	25.87
Subject Stabilized Year	\$16.00

Other Operated Departments expenses that are associated with these departments include payroll costs, employee benefits, and other operating supplies. The comparables' other operating expenses ranged from a 14.5 percent to a 74.2 percent expense ratio. For a representative year of operations, we have estimated expenses at approximately 60.0 percent of revenues, which is within the range of the comparables.

Other Operated Departments Expense	
<u>Comparables</u>	Ratio to O.O.D. Rev.
A	14.5%
B	60.5%
C	74.2%
D	46.6%
E	17.8%
Weighted Average	40.5%
Subject Stabilized Year	60.0%

Undistributed Operating Expenses

Operating expenses that are not chargeable to a particular operating department are presented as undistributed operating expenses, in accordance with the *Uniform System of Accounts for the Lodging Industry*. These expenses include administrative and general, franchise fees, marketing, property operations and maintenance, and energy and utilities. These expenses are relatively unaffected by fluctuations in occupancies and ADR. Excluding management fees, which are a fixed percentage based on a contract agreement and market parameters, these expenses are analyzed primarily on a dollar amount per available room (PAR) basis.

Administrative and General

Expenses in this category include salaries and wages associated with the operation of the administrative function of the property, cash overages and shortages, credit card commissions, bad debt expense, information systems, donations, dues and subscriptions, human resources, loss and damage, security, executive office expenses, professional fees, travel reimbursements, and supplies. The administrative and general expense of the comparable hotels ranged from \$6,539 to \$22,852 per available room, or 7.7 to 12.9 percent of revenue. We have estimated an administrative and general expense of \$8,000 per available room for the subject in a representative year, or 8.5 percent of total revenues. This is within the range of comparables on a per available room and ratio to total revenue basis.

Administrative and General		
<u>Comparables</u>	Per Available Room	Ratio to Total Rev.
A	\$22,852	12.9%
B	6,539	8.4%
C	8,190	9.0%
D	9,779	12.1%
E	9,495	7.7%
Weighted Average	8,647	9.3%
Subject Stabilized Year	\$8,000	8.5%

Marketing

This account is charged with all costs incurred in the connection with the creation and maintenance of the image of the hotel and the development, promotion, and furtherance of business whether paid for in cash or in hotel trade. This includes the cost of print

advertising, the printing of brochures, salaries, wages, and benefits associated with sales and marketing personnel, franchise fees, and other costs associated with sales and promotional programs. The comparable properties ranged from \$3,152 to \$7,353 per available room. The weighted average for marketing expense for the comparable hotels was \$5,684 per available room, or 6.1 percent of total revenue. We estimate marketing costs of approximately \$7,200 per available room in a representative year. This is on the higher end of the range of comparables on per available room and ratio to total revenue basis, but given the subject's inland location and potential brand affiliation, which would ensure franchise fees, we expect marketing costs to be higher than some of the waterfront, non-branded comparable properties.

Marketing		
<u>Comparables</u>	Per Available Room	Ratio to Total Rev.
A	\$3,152	1.8%
B	4,966	6.4%
C	5,820	6.4%
D	6,136	7.6%
E	7,353	5.9%
Weighted Average	5,684	6.1%
Subject Stabilized Year	\$7,200	7.7%

Property Operations and Maintenance

This category includes the maintenance of the building, grounds and landscape, electrical and mechanical equipment, salaries, wages, and benefits of the engineering department staff, refrigeration, operating supplies, cleaning, waste removal and uniforms. The comparable properties ranged from \$2,450 to \$4,999 per available room. We estimate maintenance expenditures for the subject at \$3,200 per available room in a representative year, which is within the range of the comparables and close to the weighted average on a per available room and ratio to total revenue basis.

Property Operation and Maintenance		
<u>Comparables</u>	Per Available Room	Ratio to Total Rev.
A	\$4,999	2.8%
B	3,119	4.0%
C	2,450	2.7%
D	3,152	3.9%
E	4,445	3.6%
Weighted Average	3,320	3.6%
Subject Stabilized Year	\$3,200	3.4%

Energy and Utility Costs

Energy and utility costs include electric, fuel, steam, water, and sewer charges. The cost of utilities at the comparable hotel properties ranged from \$1,924 to \$4,852 per available room. In a representative year we estimate energy and utility costs of \$2,500 per available room, stated in 2015 dollars. We find this number reasonable, as utility costs are property

and location specific. Further, it is within the range of the comparables on a per available room and ratio to total revenue basis.

<u>Comparables</u>	Utility Costs	
	Per Available Room	Ratio to Total Rev.
A	\$3,088	1.7%
B	1,924	2.5%
C	3,057	3.4%
D	4,852	6.0%
E	3,003	2.4%
Weighted Average	2,933	3.2%
Subject Stabilized Year	\$2,500	2.7%

Fixed Charges

Management Fees

A management fee is an expense item representing the value of the management services. It is a variable operating expense normally expressed as a percentage of total revenues. Based on comparable hotels and industry standards, we have utilized a management fee of 3.0 percent of total revenues. This equates to a representative year expense of \$422,000.

Property Taxes

The subject property is assessed by the Los Angeles County. The current method of taxation of real property in California is mandated by the Jarvis-Gann Property Tax Initiative, known as Proposition 13, under which real estate taxes were reduced to one percent of the property's full market value as of the 1975/76 fiscal year, plus any voter-approved bond indebtedness. Proposition 13 limits real estate taxes to a two-percent annual increase except upon sale or major alteration of the property. In either of these two events, the property is re-appraised to current market value, usually as evidenced by the sales price or the construction cost. We were not provided with total construction cost, but have estimated this cost at \$37,500,000. For the purposes of this analysis, we have used the tax estimate of 1.1 percent of the hotel's estimated cost of construction. This equates to an estimated property tax of \$389,000 in a representative year, or 2.8 percent of total revenues.

<u>Comparables</u>	Property Taxes	
	Per Available Room	Ratio to Total Rev.
A	\$4,457	2.5%
B	2,582	3.3%
C	3,890	4.3%
D	2,686	3.3%
E	4,883	3.9%
Weighted Average	3,303	3.6%
Subject Stabilized Year	\$2,591	2.8%

Insurance

Insurance for liability and building and contents is estimated to be \$1000 per available room in a representative year of operation, primarily based on our analysis of comparable hotel properties in Southern California and the specific attributes of the proposed subject. The subject's projected insurance expense is also within the range of the comparable hotels detailed in the table below.

Insurance	
<u>Comparables</u>	<u>Per Available Room</u>
A	\$1,046
B	1,292
C	436
D	1,464
E	3,208
Weighted Average	1,504
Subject Stabilized Year	\$1,000

Ground Rent

We have assumed ground lease payments in our projections of stabilized operations of the subject. We have based our assumptions of the ground lease structure on the details of a lease agreement of a competitive property. We have assumed that the ground rent will total \$4,869 on a per available room basis or 5.2 percent of total revenue.

Reserves for Replacement

An additional item not typically listed on an owner's income statement is the amount required for the periodic replacement of certain short-lived items such as carpeting, draperies, and other furniture, fixtures and equipment. We have estimated a reserve for replacements as detailed in the following table. Since the subject property is expected to open January 1, 2018, we have projected a ramp-up in reserves for replacement from 2.0 percent in 2018, to 3.0 percent in 2019, and thereafter stabilizing at 4.0 percent of hotel related revenue in 2020.

Schedule of Reserves for Replacement	
Year	Reserve Percentage of Total Revenue
2018	2.0%
2019	3.0
2020	4.0
2022	4.0
2023	4.0

REPRESENTATIVE YEAR OPERATING STATEMENT

The following presents our estimates of annual operating results for the subject property in a representative year in 2015 dollars based on the aforementioned analysis. The representative year statement is presented on a calendar year basis.

Proposed Manhattan Beach Hotel				
Representative Year of Operation				
Stated in 2015 Dollars				
Number of Units:	150			
Number of Annual Rooms Available:	54,750			
Number of Rooms Occupied:	43,800			
Annual Occupancy:	80.0%			
Average Daily Rate:	\$220.00			
Revenue Per Available Room:	\$176.00			
Revenues	Amount	Ratio	Per Room	P.O.R.
Rooms	\$9,636,000	68.5%	\$64,240	\$220.00
Food & Beverage	3,723,000	26.5%	24,820	85.00
Other Operated Departments	701,000	5.0%	4,673	16.00
Total Revenues	14,060,000	100.0%	93,733	321.00
Departmental Expenses				
Rooms	2,409,000	25.0%	16,060	55.00
Food & Beverage	2,792,000	75.0%	18,613	63.74
Other Operated Departments	420,000	59.9%	2,800	9.59
Total Departmental Expenses	5,621,000	40.0%	37,473	128.33
Departmental Profit	8,439,000	60.0%	56,260	192.67
Undistributed Expenses				
Administrative & General	1,200,000	8.5%	8,000	27.40
Marketing	1,080,000	7.7%	7,200	24.66
Property Operation and Maintenance	480,000	3.4%	3,200	10.96
Utility Costs	375,000	2.7%	2,500	8.56
Total Undistributed Operating Expenses	3,135,000	22.3%	20,900	71.58
Gross Operating Profit	5,304,000	37.7%	35,360	121.10
Base Management Fee	422,000	3.0%	2,813	9.63
Fixed Expenses				
Property Taxes	389,000	2.8%	2,593	8.88
Insurance	150,000	1.1%	1,000	3.42
Ground Rent	730,000	5.2%	4,867	16.67
Total Fixed Expenses	1,269,000	9.0%	8,460	28.97
Net Operating Income Before Reserve	3,613,000	25.7%	24,087	82.49
FF&E Reserve	562,000	4.0%	3,747	12.83
Net Operating Income After Reserve	\$3,051,000	21.7%	\$20,340	\$69.66
Source: PKF Consulting USA				

ESTIMATED ANNUAL OPERATING RESULTS

The previous analysis provided for the income and expenses incurred in the operation of the subject in a stabilized year. In the following analysis, we provide estimated income and expenses for the subject during each year of the holding period anticipated for a typical investor. Our estimate of the performance for the subject in the stabilized year is used as a basis for our analysis, considering the effects of inflation, business development, and varying occupancy.

Inflation

To portray price level changes during the holding period, we have assumed an inflation rate of 3.0 percent throughout the projection period. This rate reflects the consensus of several well-recognized economists for the current long-term outlook for the future movement of prices and is consistent with historical inflation rates. All expenses, save for property taxes, are projected to increase at 3.0 percent throughout the holding period. Property taxes are assumed to inflate at 2.0 percent annually in accordance with California's Proposition 13.

It should be noted that inflation is caused by many factors and unanticipated events and circumstances can affect the forecasted rate. Therefore, the estimated operating results computed over the projection period can vary from the actual operating results, and the variations may be material.

The following table summarizes the ten-year statement of operating income and ratio to total revenue of income.

Summary of Estimated Annual Operating Results			
Year	Total Revenue	Net Operating Income	Ratio to Total Revenues
2018	\$13,811,000	\$2,618,000	19%
2019	15,049,000	3,078,000	20
2020	16,297,000	3,529,000	22
2021	16,801,000	3,652,000	22
2022	17,311,000	3,774,000	22
2023	17,824,000	3,884,000	22
2024	18,343,000	3,992,000	22
2025	18,910,000	4,132,000	22
2026	19,483,000	4,266,000	22
2027	20,060,000	4,391,000	22

Statement of Estimated Annual Operating Results

Presented on the following pages are the subject property's estimated annual operating results for 2018 through 2027. This time period reflects the first ten years of operation.

	2018		2019		2020		2021		2022	
	Amount	Ratio								
Proposed Hotel Manhattan Beach										
Projected Operating Results										
Calendar Years										
Number of Units: 150										
Number of Annual Rooms Available: 54,750										
Number of Rooms Occupied: 39,420										
Annual Occupancy: 72.0%										
Average Daily Rate: \$240.00										
Revenue Per Available Room: \$172.80										
Revenues										
Rooms	\$9,461,000	68.5%	\$10,319,000	68.6%	\$11,169,000	68.5%	\$11,519,000	68.6%	\$11,870,000	68.6%
Food & Beverage	3,661,000	26.5%	3,981,000	26.5%	4,316,000	26.5%	4,445,000	26.5%	4,579,000	26.5%
Other Operated Departments	689,000	5.0%	749,000	5.0%	812,000	5.0%	837,000	5.0%	862,000	5.0%
Total Revenues	13,811,000	100.0%	15,049,000	100.0%	16,297,000	100.0%	16,801,000	100.0%	17,311,000	100.0%
Departmental Expenses										
Rooms	2,501,000	26.4%	2,644,000	25.6%	2,793,000	25.0%	2,876,000	25.0%	2,963,000	25.0%
Food & Beverage	2,868,000	78.3%	3,048,000	76.6%	3,237,000	75.0%	3,334,000	75.0%	3,434,000	75.0%
Other Operated Departments	414,000	60.1%	450,000	60.1%	487,000	60.0%	502,000	60.0%	517,000	60.0%
Total Departmental Expenses	5,783,000	41.9%	6,142,000	40.8%	6,517,000	40.0%	6,712,000	40.0%	6,914,000	39.9%
Departmental Profit	8,028,000	58.1%	8,907,000	59.2%	9,780,000	60.0%	10,089,000	60.0%	10,397,000	60.1%
Undistributed Expenses										
Administrative & General	1,311,000	9.5%	1,351,000	9.0%	1,391,000	8.5%	1,433,000	8.5%	1,476,000	8.5%
Marketing	1,180,000	8.5%	1,216,000	8.1%	1,252,000	7.7%	1,290,000	7.7%	1,328,000	7.7%
Property Operation and Maintenance	525,000	3.8%	540,000	3.6%	556,000	3.4%	573,000	3.4%	590,000	3.4%
Utility Costs	410,000	3.0%	422,000	2.8%	435,000	2.7%	448,000	2.7%	461,000	2.7%
Total Undistributed Operating Expenses	3,426,000	24.8%	3,529,000	23.5%	3,634,000	22.3%	3,744,000	22.3%	3,855,000	22.3%
Gross Operating Profit	4,602,000	33.3%	5,378,000	35.7%	6,146,000	37.7%	6,345,000	37.8%	6,542,000	37.8%
Base Management Fee	414,000	3.0%	451,000	3.0%	489,000	3.0%	504,000	3.0%	519,000	3.0%
Fixed Expenses										
Property Taxes	413,000	3.0%	447,000	3.0%	455,000	2.8%	465,000	2.8%	474,000	2.7%
Insurance	164,000	1.2%	169,000	1.1%	174,000	1.1%	179,000	1.1%	184,000	1.1%
Ground Rent	717,000	5.2%	782,000	5.2%	847,000	5.2%	873,000	5.2%	899,000	5.2%
Total Fixed Expenses	1,294,000	9.4%	1,398,000	9.3%	1,476,000	9.1%	1,517,000	9.0%	1,557,000	9.0%
Net Operating Income Before Reserve	2,894,000	21.0%	3,529,000	23.5%	4,181,000	25.7%	4,324,000	25.7%	4,466,000	25.8%
FF&E Reserve	276,000	2.0%	451,000	3.0%	652,000	4.0%	672,000	4.0%	692,000	4.0%
Net Operating Income After Reserve	\$2,618,000	19.0%	\$3,078,000	20.5%	\$3,529,000	21.7%	\$3,652,000	21.7%	\$3,774,000	21.8%
Source: PKF Consulting USA										
Full Year of Operation										

Proposed Hotel Manhattan Beach Projected Operating Results Calendar Years	2023		2024		2025		2026		2027	
	Amount	Ratio								
Number of Units:	150		150		150		150		150	
Number of Annual Rooms Available:	54,750		54,750		54,750		54,750		54,750	
Number of Rooms Occupied:	43,800		43,800		43,800		43,800		43,800	
Annual Occupancy:	80.0%		80.0%		80.0%		80.0%		80.0%	
Average Daily Rate:	\$279.00		\$287.00		\$296.00		\$305.00		\$314.00	
Revenue Per Available Room:	\$223.20		\$229.60		\$236.80		\$244.00		\$251.20	
Revenues										
Rooms	\$12,220,000	68.6%	\$12,571,000	68.5%	\$12,965,000	68.6%	\$13,359,000	68.6%	\$13,753,000	68.6%
Food & Beverage	4,716,000	26.5%	4,858,000	26.5%	5,003,000	26.5%	5,154,000	26.5%	5,308,000	26.5%
Other Operated Departments	888,000	5.0%	914,000	5.0%	942,000	5.0%	970,000	5.0%	999,000	5.0%
Total Revenues	17,824,000	100.0%	18,343,000	100.0%	18,910,000	100.0%	19,483,000	100.0%	20,060,000	100.0%
Departmental Expenses										
Rooms	3,052,000	25.0%	3,143,000	25.0%	3,237,000	25.0%	3,335,000	25.0%	3,435,000	25.0%
Food & Beverage	3,537,000	75.0%	3,643,000	75.0%	3,753,000	75.0%	3,865,000	75.0%	3,981,000	75.0%
Other Operated Departments	533,000	60.0%	549,000	60.1%	565,000	60.0%	582,000	60.0%	600,000	60.1%
Total Departmental Expenses	7,122,000	40.0%	7,335,000	40.0%	7,555,000	40.0%	7,782,000	39.9%	8,016,000	40.0%
Departmental Profit	10,702,000	60.0%	11,008,000	60.0%	11,355,000	60.0%	11,701,000	60.1%	12,044,000	60.0%
Undistributed Expenses										
Administrative & General	1,520,000	8.5%	1,566,000	8.5%	1,613,000	8.5%	1,661,000	8.5%	1,711,000	8.5%
Marketing	1,368,000	7.7%	1,409,000	7.7%	1,451,000	7.7%	1,495,000	7.7%	1,540,000	7.7%
Property Operation and Maintenance	608,000	3.4%	626,000	3.4%	645,000	3.4%	664,000	3.4%	684,000	3.4%
Utility Costs	475,000	2.7%	489,000	2.7%	504,000	2.7%	519,000	2.7%	535,000	2.7%
Total Undistributed Operating Expenses	3,971,000	22.3%	4,090,000	22.3%	4,213,000	22.3%	4,339,000	22.3%	4,470,000	22.3%
Gross Operating Profit	6,731,000	37.8%	6,918,000	37.7%	7,142,000	37.8%	7,362,000	37.8%	7,574,000	37.8%
Base Management Fee	535,000	3.0%	550,000	3.0%	567,000	3.0%	584,000	3.0%	602,000	3.0%
Fixed Expenses										
Property Taxes	483,000	2.7%	493,000	2.7%	503,000	2.7%	513,000	2.6%	523,000	2.6%
Insurance	190,000	1.1%	196,000	1.1%	202,000	1.1%	208,000	1.1%	214,000	1.1%
Ground Rent	926,000	5.2%	953,000	5.2%	982,000	5.2%	1,012,000	5.2%	1,042,000	5.2%
Total Fixed Expenses	1,599,000	9.0%	1,642,000	9.0%	1,687,000	8.9%	1,733,000	8.9%	1,779,000	8.9%
Net Operating Income Before Reserve	4,597,000	25.8%	4,726,000	25.8%	4,888,000	25.8%	5,045,000	25.9%	5,193,000	25.9%
FF&E Reserve	713,000	4.0%	734,000	4.0%	756,000	4.0%	779,000	4.0%	802,000	4.0%
Net Operating Income After Reserve	\$3,884,000	21.8%	\$3,992,000	21.8%	\$4,132,000	21.9%	\$4,266,000	21.9%	\$4,391,000	21.9%
Source: PKF Consulting USA										

Section VI
MANHATTAN BEACH MARKET ANALYSIS

HOTEL MARKET ANALYSIS – FUTURE

In accordance with the request of the City of Manhattan Beach, we have completed an analysis of future market trends in the community of Manhattan Beach for the next eight years. In order to arrive at the following conclusions, our investigation included interviewing management of existing hotels in Manhattan Beach and analyzing Transient Occupancy Tax revenue receipts provided by the city in order to project hotel revenues over the next eight years while taking into account potential additions to supply. As we discuss below, the additions that have been considered are in various stages of planning, and there are varying degrees of likelihood that they will come to fruition. Despite this evidence, for the purposes of this analysis we have considered the effect that these hotels would have on the Manhattan Beach lodging market by projecting their room count and opening date.

MANHATTAN BEACH HOTEL SUPPLY

There are currently 12 hotels that reside within the City of Manhattan Beach. These twelve hotels provide the market with a total of 994 rooms. The twelve hotels and their corresponding room counts are presented in the following table.

Manhattan Beach Hotel Supply		
Map No.	Hotel	Rooms
1	Belamar Hotel	127
2	Crimson Hotel	45
3	Manhattan Village Inn	19
4	Hawthorne Suites	53
5	Hi-View Motel	22
6	Wave Hotel	44
7	Manhattan Beach Motel	15
8	Marriott Manhattan Beach	385
9	Residence Inn	176
10	Seahorse Inn	33
11	Seaview Inn	37
12	Shade Hotel	38
Total Rooms:		994

A map detailing the location of all 12 hotels within Manhattan Beach is located on the following page.

Overall Market Performance

In conjunction with this study, PKF Consulting has gathered and analyzed data on the twelve hotels within Manhattan Beach. Our primary data sources included our internal database, PKF Monthly Trends, interviews of management of lodging properties, and our knowledge of the market in addition to TOT Monthly Receipts provided by the City of Manhattan Beach. Based on this information, we have estimated operating performances of the twelve hotels in Manhattan Beach.

Definitions to the terms in the subsequent charts are as follows:

- Annual Supply of rooms represents the total number of room nights available in a year.
- Occupied Rooms is the total number of room nights sold in a year.
- Market Occupancy equals the total number of occupied rooms divided by total supply.
- Average Daily Room Rate (ADR) is the room revenue divided by the occupied rooms rented.
- Revenue per Available Room (REVPAR) is the market occupancy multiplied by the average daily rate or the total room revenue divided by the number of rooms available.
- Compound Annual Average Growth (CAAG) is the year-over-year growth rate over a specified period of time. For the purpose of this study CAAG reflects growth from 2010 to 2014 for supply, occupied rooms, average daily rate, and RevPAR.

The following table presents the historical operating performance for all tiers in the area. We have presented 2010 through 2014, as well as year-to-date August 2014 and 2015.

Historical Market Performance of Manhattan Beach									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2010	362,810	N/A	267,373	N/A	73.7%	\$127.11	N/A	\$ 93.67	N/A
2011	362,810	0.0%	264,768	-1.0%	73.0	130.85	2.9%	95.49	1.9%
2012	362,810	0.0	276,790	4.5	76.3	134.14	2.5	102.34	7.2
2013	362,810	0.0	273,420	-1.2	75.4	146.01	8.8	110.03	7.5
2014	362,810	0.0	286,166	4.7	78.9	160.27	9.8	126.41	14.9
CAAG	0.0%		1.7%			6.0%		7.8%	
8/14 ytd	241,995	N/A	191,713	N/A	79.2%	\$160.97	N/A	\$127.52	N/A
8/15 ytd	241,995	0.0%	191,001	-0.4%	78.9%	177.90	10.5%	140.41	10.1%

Source: PKF Consulting USA

As shown above, the supply of hotel rooms within Manhattan Beach has stayed constant over the five-year period. Manhattan Beach is characterized by many small, independent hotel properties. Over the same period, demand, as measured by occupied rooms, grew at 1.7 percent annually. This limited growth in occupancy is due in large part to the size of

lodging facilities in the market. By contrast, ADR increased at 6.0 percent annually over the five-year period, showing more significant growth over the period. The minimal growth in occupancy and strong growth in ADR resulted in RevPAR growth of 7.8 percent annually over the observed period.

Year-to-date through August 2015 has experienced a decrease in occupancy percentage as well as a decrease in occupied room nights with an industry focus on ADR growth versus occupancy playing a key role. Despite the drop in occupancy, year-to-date through August 2015 ADR experienced an increase of 10.5 percent over the same period in 2014 which resulted in a RevPAR growth of 10.1 percent over the same period in 2014.

Additions to Supply

According to city officials, there are several proposed hotel projects that are being evaluated for development in Manhattan Beach. Below is a discussion of the projects currently being discussed in Manhattan Beach.

A proposed midsized hotel on the site of a Fry's Electronics at the corner of Sepulveda and Rosecrans is currently being considered. This project is still tentative, and we have therefore projected a January 2020 opening date. Additionally, a parcel of land adjacent to the Shade Hotel is being considered for expansion by the Zislis group to add onto the existing Shade Manhattan Beach. This potential site fronting 13th Street could offer an additional 40 rooms, which we project will be added in 2019. Plans for a boutique 10-room hotel on Highland Avenue are also in the works; due to the small size of this property, we have projected a 2017 opening date. While no plans have been formally announced for a proposed hotel on Highland and Rosecrans, adjacent to the Verandas Beach House, for the purposes of this analysis we project that this hotel will be comprised of approximately 100 rooms and open in 2019. Per the recommendation of the ULI advisory Services Panel, it is our opinion that the redevelopment of the Vons corner (Manhattan Beach Blvd and Valley Blvd) could play an important role in development in the city; for the purposes of this analysis we have assumed that this site will be redeveloped into a 200-room hotel opening mid-2020. Finally, we have added the proposed 150-room Parkview Avenue Hotel, discussed earlier, opening in January 2018.

While the discussed projects, are in various stages of planning and consideration, for the purposes of this analysis we have included these six potential additions to supply in order to assess the impact that additional hotel supply would have on the Manhattan Beach hotel market. Opening dates and room counts have been approximated and projected in order to effectively analyze the hotel market and its reaction to additional supply.

Projected Market Performance

Based on our analysis of the economic conditions, we have estimated growth in market supply and rooms demand with and without the addition of proposed hotels. Using the historical growth in the market as a base, we have estimated future growth in overall market demand. Additionally, we have derived a projection of average daily rate for the

market based on historical rate growth and current trends in the market. A discussion of the future market trends with and without the additions is presented on the following pages.

Projected Market Performance without Supply Additions

The following table presents the projected market performance in Manhattan Beach for the next eight years without the addition of the six proposed hotels.

Projected Market Performance of Manhattan Beach									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2015	362,810	0.0%	283,000	-1.1%	78%	\$175.00	9.2%	\$136.50	8.0%
2016	362,810	0.0	279,400	-1.3	77	187.00	6.9	144.01	5.5
2017	362,810	0.0	279,400	0.0	77	197.00	5.3	151.71	5.3
2018	362,810	0.0	279,400	0.0	77	203.00	3.0	156.33	3.0
2019	362,810	0.0	279,400	0.0	77	209.00	3.0	160.95	3.0
2020	362,810	0.0	279,400	0.0	77	215.00	2.9	165.57	2.9
2021	362,810	0.0	279,400	0.0	77	221.00	2.8	170.19	2.8
2022	362,810	0.0	279,400	0.0	77	228.00	3.2	175.58	3.2
2023	362,810	0.0	279,400	0.0	77	235.00	3.1	180.97	3.1
CAAG	0.0%		-0.2%			3.8%		3.6%	

Source: PKF Consulting USA

The supply in Manhattan Beach is expected to remain constant throughout the projection period. Occupancy within the market is expected to decrease to 78 percent in 2015 followed by a decrease to a stabilized level of 77 percent in 2016. Average daily rate in the market is expected to grow by 3.8 percent on a compound average annual basis from 2015 to 2023. Our market projections assume rate growth at or above inflationary increases throughout the projection period as the coastal zones within Southern California have historically performed well above State and National levels.

Projected Total Rooms Revenue without Supply Additions

Based on the preceding analysis, we have projected an estimate of the total rooms revenues Manhattan Beach hotels could possibly achieve with no supply additions over the next five years. The following table presents our summary of total rooms revenues from 2015 to 2023.

Manhattan Beach Hotel Market Total Rooms Revenue									
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Annual Occupied Rooms	283,000	279,400	279,400	279,400	279,400	279,400	279,400	279,400	279,400
Average Daily Rate	\$175	\$187	\$197	\$203	\$209	\$215	\$221	\$228	\$235
Total Rooms Revenue	\$49,525,000	\$52,247,800	\$55,041,800	\$56,718,200	\$58,394,600	\$60,071,000	\$61,747,400	\$63,703,200	65,659,000

Source: PKF Consulting USA

Projected Market Performance with Supply Additions

The following table presents the projected market performance in Manhattan Beach for the next eight years with the addition of the six proposed hotels.

Projected Market Performance of the Competitive Supply									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2015	362,810	0.0%	283,000	-1.1%	78%	\$175.00	9.2%	\$136.50	8.0%
2016	362,810	0.0	279,400	-1.3	77	187.00	6.9	144.01	5.5
2017	366,460	1.0	282,200	1.0	77	198.00	5.9	152.47	5.9
2018	421,210	14.9	324,300	14.9	77	208.00	5.1	160.14	5.0
2019	472,310	12.1	351,900	8.5	75	217.00	4.3	161.68	1.0
2020	563,560	19.3	407,500	15.8	72	225.00	3.7	162.69	0.6
2021	600,060	6.5	434,700	6.7	72	232.00	3.1	168.07	3.3
2022	600,060	0.0	447,700	3.0	75	239.00	3.0	178.32	6.1
2023	600,060	0.0	456,000	1.9	76	246.00	2.9	186.94	4.8
CAAG	6.5%		6.1%			4.3%		4.0%	

Source: PKF Consulting USA

The supply within Manhattan Beach is expected to increase in 2017 with the opening of a small boutique hotel, 2018 with the opening of the Parkview Avenue hotel, 2019 with the opening of the Rosecrans and Highland hotel and the expansion of the Shade Hotel, 2020 with the hotel at the Fry's site and the redevelopment of the Vons site entering in the middle of the year, and in 2021 with the remainder of the rooms from the Vons Block redevelopment. Demand within the market, as measured by occupied room nights, is not expected to outpace the growth in supply, but is expected to increase with an annual average growth rate of 6.1 percent over the eight year period. Occupancy in the market is expected to decrease to 78 percent in 2015 before decreasing further to 77 percent in 2016. Occupancy in the market is expected to drop again in 2019 to 75 percent and then drop once more to 72 percent in 2020 as the bulk of the additional supply enters the market. In 2022, the market is expected to begin to absorb the additional supply with a jump in occupancy to 75 percent before ultimately stabilizing at 76 percent in 2023. Average daily rate is projected to grow at 4.3 percent over the projection period as compared to 3.8 percent growth on an annual basis without the additions. This increase in average daily rate leads to a REVPAR growth rate of 4.0 percent on an annual basis, which is higher than the 3.6 percent REVPAR growth rate without these additions to supply.

Projected Total Rooms Revenue with Supply Additions

Based on the preceding analysis, we have projected an estimate of the total rooms revenues Manhattan Beach hotels could possibly achieve with the addition of these six hotels over the next eight years. The following table presents our summary of total rooms revenues from 2015 to 2023.

Manhattan Beach Hotel Market Total Rooms Revenue									
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Annual Occupied Rooms	283,000	279,400	282,200	324,300	351,900	407,500	434,700	447,700	456,000
Average Daily Rate	\$175	\$187	\$198	\$208	\$217	\$225	\$232	\$239	\$246
Total Rooms Revenue	\$49,525,000	\$52,247,800	\$55,875,600	\$67,454,400	\$76,362,300	\$60,071,000	\$100,850,400	\$107,000,300	112,1746,000

Source: PKF Consulting USA

Addendum
Terms and Conditions

TERMS AND CONDITIONS

1. The Terms and Conditions herein are part of an agreement for consulting services (the "Agreement") between CBRE, Inc. (the "Consultant") and the client signing this Agreement, and for whom the consulting services will be performed (the "Client"), and shall be deemed a part of such Agreement as though set forth in full therein. The Agreement shall be governed by the laws of the state where the consulting office is located for the Consultant executing this Agreement.
2. Client shall be responsible for the payment of all fees stipulated in the Agreement. Payment of the consulting fee and preparation of an consulting report (the "Consulting Report, or the "report") are not contingent upon any predetermined value or on an action or event resulting from the analyses, opinions, conclusions, or use of the Consulting Report. Final payment is due as provided in the Proposal Specifications Section of this Agreement. If a draft report is requested, the fee is considered earned upon delivery of the draft report. It is understood that the Client may cancel this assignment in writing at any time prior to delivery of the completed report. In such event, the Client is obligated only for the prorated share of the fee based upon the work completed and expenses incurred (including travel expenses to and from the job site), with a minimum charge of \$500. Additional copies of the Consulting Reports are available at a cost of \$250 per original color copy and \$100 per photocopy (black and white), plus shipping fees of \$30 per report.
3. If Consultant is subpoenaed or ordered to give testimony, produce documents or information, or otherwise required or requested by Client or a third party to participate in meetings, phone calls, conferences, litigation or other legal proceedings (including preparation for such proceedings) because of, connected with or in any way pertaining to this engagement, the Consulting Report, the Consultant's expertise, or the Property, Client shall pay Consultant's additional costs and expenses, including but not limited to Consultant's attorneys' fees, and additional time incurred by Consultant based on Consultant's then-prevailing hourly rates and related fees. Such charges include and pertain to, but are not limited to, time spent in preparing for and providing court room testimony, depositions, travel time, mileage and related travel expenses, waiting time, document review and production, and preparation time (excluding preparation of the Consulting Report), meeting participation, and Consultant's other related commitment of time and expertise. Hourly charges and other fees for such participation will be provided upon request. In the event Client requests additional consulting services beyond the scope and purpose stated in the Agreement, Client agrees to pay additional fees for such services and to reimburse related expenses, whether or not the completed report has been delivered to Client at the time of such request.
4. Consultant shall have the right to terminate this Agreement at any time for cause effective immediately upon written notice to Client on the occurrence of fraud or the willful misconduct of Client, its employees or agents, or without cause upon 30 days written notice.
5. In the event Client fails to make payments when due then, from the date due until paid, the amount due and payable shall bear interest at the maximum rate permitted in the state where the office is located for the Consultant executing the Agreement. In the event either party institutes legal action against the other to enforce its rights under this Agreement, the prevailing party shall be entitled to recover its reasonable attorney's fees and expenses. Each party waives the right to a trial by jury in any action arising under this Agreement.
6. Consultant assumes there are no major or significant items or issues affecting the Property that would require the expertise of a professional building contractor, engineer, or environmental consultant for Consultant to prepare a valid report. Client acknowledges that such additional expertise is not covered in the Consulting fee and agrees that, if such additional expertise is required, it shall be provided by others at the discretion and direction of the Client, and solely at Client's additional cost and expense.
7. In the event of any dispute between Client and Consultant relating to this Agreement, or Consultant's or Client's performance hereunder, Consultant and Client agree that such dispute shall be resolved by means of binding arbitration in accordance with the commercial arbitration rules of the American Arbitration Association, and judgment upon the award rendered by an arbitrator may be entered in any court of competent jurisdiction. Depositions may be taken and other discovery obtained during such arbitration proceedings to the same extent as authorized in civil judicial proceedings in the state where the office of the Consultant executing this Agreement is located. The arbitrator shall be limited to awarding compensatory damages and shall have no authority to award punitive, exemplary or similar damages. The prevailing party in the arbitration proceeding shall be entitled to recover its expenses from the losing party, including costs of the arbitration proceeding, and reasonable attorney's fees. Client acknowledges that Consultant is being retained hereunder as an independent contractor to perform the services described herein and nothing in this Agreement shall be deemed to create any other relationship between Client and Consultant. This engagement shall be deemed concluded and the services hereunder completed upon delivery to Client of the Consulting Report discussed herein.
8. All statements of fact in the report which are used as the basis of the Consultant's analyses, opinions, and conclusions will be true and correct to Consultant's actual knowledge and belief. Consultant does not make any representation or warranty, express or implied, as to the accuracy or completeness of the information or the condition of the Property furnished to Consultant by Client or others. The conclusions and any permitted reliance

TERMS AND CONDITIONS

(continued)

on and use of the Consulting Report shall be subject to the assumptions, limitations, and qualifying statements contained in the report.

9. Consultant shall have no responsibility for legal matters, including zoning, or questions of survey or title, soil or subsoil conditions, engineering, or other similar technical matters. The report will not constitute a survey of the Property analyzed.
10. Client shall provide Consultant with such materials with respect to the assignment as are requested by Consultant and in the possession or under the control of Client. Client shall provide Consultant with sufficient access to the Property to be analyzed, and hereby grants permission for entry unless discussed in advance to the contrary.
11. The data gathered in the course of the assignment (except data furnished by Client) and the report prepared pursuant to the Agreement are, and will remain, the property of Consultant. With respect to data provided by Client, Consultant shall not violate the confidential nature of the Consultant-Client relationship by improperly disclosing any proprietary information furnished to Consultant. Notwithstanding the foregoing, Consultant is authorized by Client to disclose all or any portion of the report and related data as may be required by statute, government regulation, legal process, or judicial decree, including to appropriate representatives of the Appraisal Institute if such disclosure is required to enable Consultant to comply with the Bylaws and Regulations of such Institute as now or hereafter in effect.
12. Unless specifically noted, in preparing the Consulting Report the Consultant will not be considering the possible existence of asbestos, PCB transformers, or other toxic, hazardous, or contaminated substances and/or underground storage tanks (collectively, "Hazardous Material") on or affecting the Property, or the cost of encapsulation or removal thereof. Further, Client represents that there is no major or significant deferred maintenance of the Property that would require the expertise of a professional cost estimator or contractor. If such repairs are needed, the estimates are to be prepared by others, at Client's discretion and direction, and are not covered as part of the Consulting fee.
13. In the event Client intends to use the Consulting Report in connection with a tax matter, Client acknowledges that Consultant provides no warranty, representation or prediction as to the outcome of such tax matter. Client understands and acknowledges that any relevant taxing authority (whether the Internal Revenue Service or any other federal, state or local taxing authority) may disagree with or reject the Consulting Report or otherwise disagree with Client's tax position, and further understands and acknowledges that the taxing authority may seek to collect additional taxes, interest, penalties or fees from Client beyond what may be suggested by the Consulting Report. Client agrees that Consultant shall have no responsibility or liability to Client or any other party for any such taxes, interest, penalties or fees and that Client will not seek damages or other compensation from Consultant relating to any such taxes, interest, penalties or fees imposed on Client, or for any attorneys' fees, costs or other expenses relating to Client's tax matters.
14. Consultant shall have no liability with respect to any loss, damage, claim or expense incurred by or asserted against Client arising out of, based upon or resulting from Client's failure to provide accurate or complete information or documentation pertaining to an assignment ordered under or in connection with this Agreement, including Client's failure, or the failure of any of Client's agents, to provide a complete copy of the Consulting Report to any third party.

LIMITATION OF LIABILITY. EXCEPT TO THE EXTENT ARISING FROM SECTION 16 BELOW, OR SECTION 17 IF APPLICABLE, IN NO EVENT SHALL EITHER PARTY OR ANY OF ITS AFFILIATE, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, OR CONTRACTORS BE LIABLE TO THE OTHER, WHETHER BASED IN CONTRACT, WARRANTY, INDEMNITY, NEGLIGENCE, STRICT LIABILITY OR OTHER TORT OR OTHERWISE, FOR ANY SPECIAL, CONSEQUENTIAL, PUNITIVE, INCIDENTAL OR INDIRECT DAMAGES AND AGGREGATE DAMAGES IN CONNECTION WITH THIS AGREEMENT FOR EITHER PARTY (EXCLUDING THE OBLIGATION TO PAY THE FEES REQUIRED HEREUNDER) SHALL NOT EXCEED THE GREATER OF THE TOTAL FEES PAYABLE TO CONSULTANT UNDER THIS AGREEMENT OR TEN THOUSAND DOLLARS (\$10,000). THIS LIABILITY LIMITATION SHALL NOT APPLY IN THE EVENT OF A FINAL FINDING BY AN ARBITRATOR OR A COURT OF COMPETENT JURISDICTION THAT SUCH LIABILITY IS THE RESULT OF A PARTY'S FRAUD OR WILLFUL MISCONDUCT.

15. Client shall not disseminate, distribute, make available or otherwise provide any Consulting Report prepared hereunder to any third party (including without limitation, incorporating or referencing the Consulting Report, in whole or in part, in any offering or other material intended for review by other parties) except to (i) any third party expressly acknowledged in a signed writing by Consultant as an "Intended User" of the Consulting Report provided that either Consultant has received an acceptable release from such third party with respect to such Consulting Report or Client provides acceptable indemnity protections to Consultant against any claims resulting from the distribution of the Consulting Report to such third party, (ii) any third party service provider (including rating agencies and Client's auditors) using the Consulting Report in the course of providing services for the sole benefit of Client, or (iii) as required by statute, government regulation, legal process, or judicial decree. In the event Consultant consents, in writing, to Client incorporating or referencing the Consulting Report in any offering

TERMS AND CONDITIONS

(continued)

or other materials intended for review by other parties, Client shall not distribute, file, or otherwise make such materials available to any such parties unless and until Client has provided Consultant with complete copies of such materials and Consultant has approved all such materials in writing. Client shall not modify any such materials once approved by Consultant. In the absence of satisfying the conditions of this paragraph with respect to a party who is not designated as an Intended User, in no event shall the receipt of a Consulting Report by such party extend any right to the party to use and rely on such report, and Consultant shall have no liability for such unauthorized use and reliance on any Consulting Report. In the event Client breaches the provisions of this paragraph, Client shall indemnify, defend and hold Consultant, and its affiliates and their officers, directors, employees, contractors, agents and other representatives (Consultant and each of the foregoing an "Indemnified Party" and collectively the "Indemnified Parties"), fully harmless from and against all losses, liabilities, damages and expenses (collectively, "Damages") claimed against, sustained or incurred by any Indemnified Party arising out of or in connection with such breach, regardless of any negligence on the part of any Indemnified Party in preparing the Consulting Report.

16. In the event Client incorporates or references the Consulting Report, in whole or in part, in any offering or other material intended for review by other parties, Client shall indemnify, defend and hold each of the Indemnified Parties harmless from and against any Damages in connection with (i) any transaction contemplated by this Agreement or in connection with the consulting or the engagement of or performance of services by any Indemnified Party hereunder, (ii) any actual or alleged untrue statement of a material fact, or the actual or alleged failure to state a material fact necessary to make a statement not misleading in light of the circumstances under which it was made with respect to all information furnished to any Indemnified Party or made available to a prospective party to a transaction, or (iii) an actual or alleged violation of applicable law by Client (including, without limitation, securities laws) or the negligent or intentional acts or omissions of Client (including the failure to perform any duty imposed by law); and will reimburse each Indemnified Party for all reasonable fees and expenses (including fees and expenses of counsel) (collectively, "Expenses") as incurred in connection with investigating, preparing, pursuing or defending any threatened or pending claim, action, proceeding or investigation (collectively, "Proceedings") arising therefrom, and regardless of whether such Indemnified Party is a formal party to such Proceeding. Client agrees not to enter into any waiver, release or settlement of any Proceeding (whether or not any Indemnified Party is a formal party to such Proceeding) without the prior written consent of Consultant (which consent will not be unreasonably withheld or delayed) unless such waiver, release or settlement includes an unconditional release of each Indemnified Party from all liability arising out of such Proceeding.
17. Time Period for Legal Action. Unless the time period is shorter under applicable law, except in connection with paragraphs 16 and 17 above, Consultant and Client agree that any legal action or lawsuit by one party against the other party or its affiliates, officers, directors, employees, contractors, agents, or other representatives, whether based in contract, warranty, indemnity, negligence, strict liability or other tort or otherwise, relating to (a) this Agreement or the Consulting Report, (b) any services or studies under this Agreement or (c) any acts or conduct relating to such services or studies, shall be filed within two (2) years from the date of delivery to Client of the Consulting Report to which the claims or causes of action in the legal action or lawsuit relate. The time period stated in this section shall not be extended by any incapacity of a party or any delay in the discovery or accrual of the underlying claims, causes of action or damages.