

FISCAL IMPACT TO THE CITY OF SANTA MONICA

Proposed Redevelopment of the Fairmont Miramar Hotel

18487LA0014

Ocean Avenue LLC
C/O Dustin Peterson
101 Wilshire Boulevard
Suite 101
Santa Monica, California 90401

CBRE





Jeff Lugosi
 Managing Director
 CBRE Hotels, Consulting

CBRE, Inc.
 400 South Hope Street, 25th Floor
 Los Angeles, CA 90071

+1 213 613 3375 Office

Jeff.Lugosi@cbre.com
www.cbrehotels.com

February 22, 2018

Ocean Avenue LLC
 C/O Mr. Dustin Peterson
 101 Wilshire Boulevard, Suite 101
 Santa Monica, California 90401

Dear Mr. Peterson:

In accordance with your request, we have reviewed your projections for the redevelopment plan of the Fairmont Miramar Hotel and provided commentary on the reasonableness thereof. On the basis of those projections, which we have concluded are reasonable, we have projected the incremental fiscal impact of the redevelopment to the City of Santa Monica. The fieldwork and data collection for this study were undertaken in December 2017 and January 2018.

Based on discussions with you and review of the hotel redevelopment plans, we have analyzed the potential fiscal impact of the following scenarios:

Summary of Scenarios		
	Current Program	Proposed Redevelopment
Guestrooms:	301	312
Restaurant Space (SF):	3,020	11,500
Meeting Space (SF):	18,525	13,000
Retail Space (SF):	1,235	6,600
Spa (SF):	5,569	13,500
		Up to 60 units/170,000
Residential:	none	SF
Parking Spaces:	167	428
Total Floor Area (SF):	262,284	502,000

The scope of our work included an analysis of the following:

- Review of ownership pro-forma for proposed redevelopment plan
- Identification of fiscal impacts of the existing hotel and proposed redevelopment plan to the City of Santa Monica.

It should be noted that this analysis of the tax revenues was limited to impact to the City of Santa Monica, as opposed to the larger market of Los Angeles County or the State of California. Furthermore, we have included in our analysis only the direct impact of spending at the

February 22, 2018
Fairmont Miramar Hotel, Santa Monica, CA
Ocean Avenue LLC
Page ii

redevelopment, and have not incorporated (i) the direct impact of spending at other Santa Monica businesses, (ii) the indirect impact, or “multiplier effect”, or (iii) the impact of the construction of the redevelopment plan.

Based upon our analysis of the Santa Monica Hotel Market, it is our opinion that the increasing demand for and current under supply of luxury hotel rooms suggests an opportunity for luxury hotel development.

We thank you for the opportunity to conduct this study and look forward to discussing our findings with you.

Sincerely,

CBRE Hotels, Consulting



Jeff Lugosi
Managing Director

EXECUTIVE SUMMARY

INTRODUCTION

CBRE Hotels has been asked by Ocean Avenue, LLC to assist in analyzing the fiscal impact with respect to a proposed redevelopment of the Fairmont Miramar to the City of Santa Monica.

Current Program

The Fairmont Miramar Hotel is a 301-unit, full-service deluxe hotel located in the City of Santa Monica. Originally the site of a private mansion owned by Senator John P. Jones, the founder of Santa Monica, the Fairmont Miramar Hotel has served as temporary residence to some of the most popular celebrities and politicians for the past 100 years. The site's guestrooms are contained within three structures: the six-story Pacific Palisades Building (94 rooms), the ten-story Ocean Tower (176 rooms) and the single- and bi-level bungalows (31 rooms).

The property has been developed over time. The original building, the Palisades Wing, was developed in 1927, while the Ocean Tower was added in 1957. The bungalows were originally built between 1920 and 1946 and were extensively redeveloped in the 1990's.

Scenarios

The existing improvements present a deluxe hotel with supporting amenities and facilities. The redevelopment of the site will include the demolition of a significant portion of the improvements in order to redevelop the property into a full-service, luxury hotel and residences. This will include a larger average room size and higher suite mix, additional food and beverage and retail concepts, and a design and layout that takes advantage of ocean views and presents outdoor patio and balcony areas. While the existing facilities present a high level of construction quality, they do not meet modern luxury standards. The proposed redevelopment will feature higher-end luxury construction comparable to the top tier of Beverly Hills hotels.

Redevelopment Program

The redesign of the site is expected to create one of the premier coastal properties in California, taking portions of the historical property and redefining them in terms of present day standards of luxury. The site's location is arguably one of the most desired addresses in the Western United States at Wilshire and Ocean, which should support a proposed redevelopment plan of mixed-use hotel, entertainment, and residential.

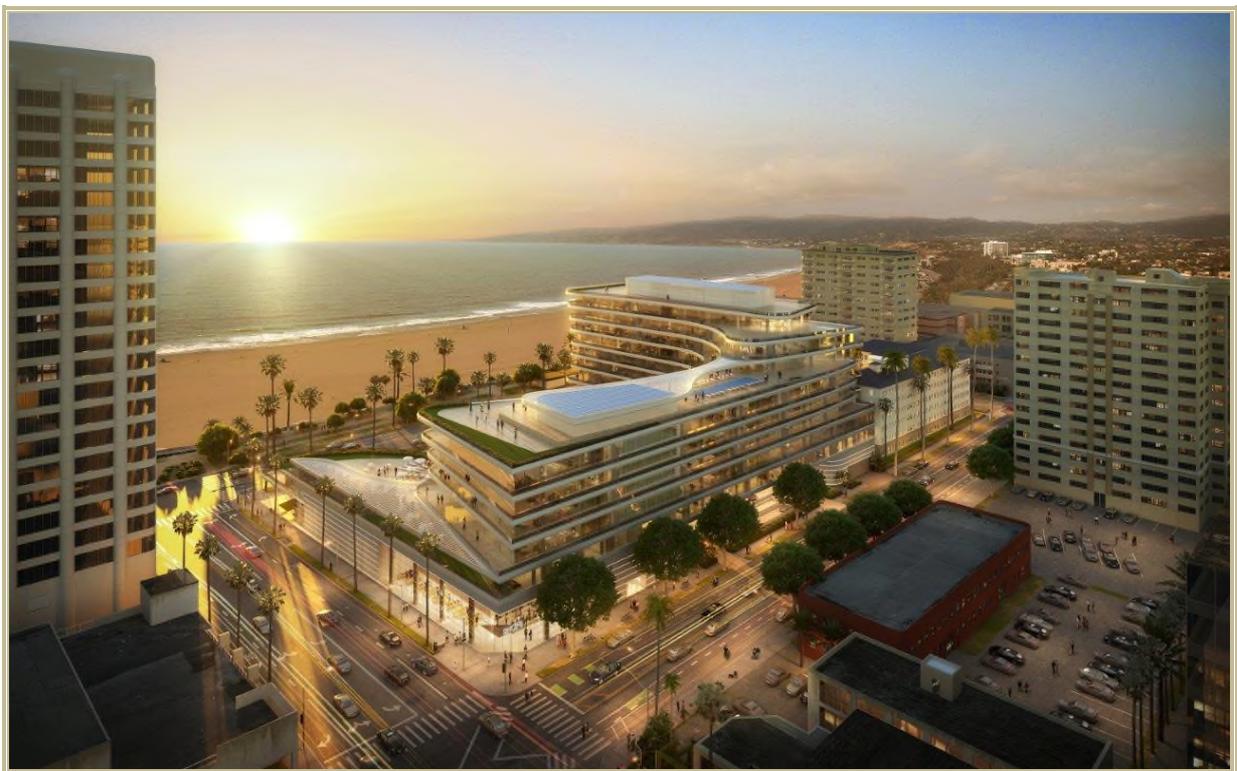
The subject hotel (including the adjacent parking parcel) comprises a total surface area of 206,649 square feet. The site's improvements consist of 262,284 square feet as currently developed. The site's future development opportunities are not limited solely to hotel units, and can include residential and additional retail and visitor serving commercial improvements. Specifically, the redevelopment program as currently planned includes:

- 312 guestrooms (an increase of 11 guestrooms from the current configuration)
- Up to 60 for-sale condominium units totaling approximately 170,000 square feet of saleable residential
- 6,600 square feet of ground floor retail

- 13,000 square feet of indoor meeting space
- 11,500 square feet of indoor food and beverage space
- 12,500 square feet of spa and fitness
- Two pools – one main pool, and resident pool
- Up to 428 underground parking spaces (an increase of 261 spaces)

A site plan and visual representations of the proposed redevelopment program are presented below and on the following page.





SUMMARY OF FINDINGS

The following tables summarize our findings for a representative year and a 20-year period. The representative year assumes a stabilized year of impact in 2018 dollars. Please note, our analysis incorporates only on-site direct fiscal impact and does not factor in any offsite direct impacts or, indirect fiscal impact as a result of the multiplier effect. A multiplier is used to estimate the impact that the visitor dollar makes beyond the initial goods/services purchased. For example, visitor spending collected “directly” within a hotel restaurant also “indirectly” supports food and beverage suppliers and delivery services. Moreover, the direct and indirect spending induces further spending in the community by employees of the benefiting businesses. In our experience, a typical “multiplier” for a project of this nature would be in the range of 1.3 to 1.5 times greater than the “direct impact” determined.

Summary of Fiscal Impacts for a Representative Year in 2018 Dollars							
	TOT	Sales Tax	Utilities	Business	Parking	Real Estate	Total
Current Program	\$5,631,000	\$508,000	\$107,000	\$93,000	\$220,000	\$407,000	\$6,966,000
Proposed Redevelopment	\$9,876,000	\$858,000	\$100,000	\$143,000	\$284,000	\$1,871,000	\$13,132,000
Incremental	\$4,245,000	\$350,000	-\$7,000	\$50,000	\$64,000	\$1,464,000	\$6,166,000

Summary of Fiscal Impacts for a Representative Year in 2027 Dollars							
	TOT	Sales Tax	Utilities	Business	Parking	Real Estate	Total
Current Program	\$7,352,000	\$663,000	\$140,000	\$112,000	\$287,000	\$487,000	\$9,041,000
Proposed Redevelopment	\$12,886,000	\$1,120,000	\$131,000	\$187,227	\$371,000	\$2,236,000	\$16,931,227
Incremental							\$7,890,227

- The Fairmont Miramar is already a major contributor to the City of Santa Monica’s annual budget. In a representative year, the existing hotel is projected to have a total fiscal impact of \$6,966,000 in 2018 dollars (rounded).
- Under the redevelopment scenario, the hotel is projected to have a representative year impact of \$13,132,000 in 2018 dollars (rounded), an increase of approximately \$6.2 million or 89 percent from existing hotel operations. At stabilization in 2027 dollars the incremental annual fiscal impact is approximately \$7.9 million.

The following table presents the projected stream of incremental fiscal impact of the proposed redevelopment plan over the existing facilities during its first 20 years of operation. Note, we have assumed the subject is closed in 2022 and 2023, followed by a re-opening in January 2024. As shown, we project total incremental revenue to the City of approximately \$187 million over a 20-year period beginning in 2024.

Incremental Fiscal Impact for 20 Year Period Beginning 2024							
	TOT	Sales Tax	Utilities	Business	Parking	Real Estate	Total
2018 Rep	\$4,245,000	\$350,000	(\$7,000)	\$50,000	\$64,000	\$1,464,000	\$6,166,000
2024	2,682,000	187,000	(5,000)	(105,000)	77,000	1,288,000	4,124,000
2025	4,030,000	261,000	(6,000)	36,500	79,000	1,681,000	6,081,500
2026	5,359,000	359,000	(8,000)	55,400	82,000	1,715,000	7,562,400
2027	5,534,000	457,000	(9,000)	75,200	84,000	1,749,000	7,890,200
2028	5,706,000	470,000	(9,000)	78,000	87,000	1,784,000	8,116,000
2029	5,877,000	484,000	(9,000)	81,000	89,000	1,820,000	8,342,000
2030	6,053,000	498,000	(9,000)	83,000	92,000	1,857,000	8,574,000
2031	6,235,000	513,000	(10,000)	85,000	94,000	1,894,000	8,811,000
2032	6,422,000	529,000	(11,000)	87,000	97,000	1,931,000	9,055,000
2033	6,614,000	545,000	(11,000)	90,000	100,000	1,969,000	9,307,000
2034	6,812,000	561,000	(11,000)	93,000	103,000	2,008,000	9,566,000
2035	7,017,000	578,000	(11,000)	96,000	107,000	2,048,000	9,835,000
2036	7,228,000	595,000	(11,000)	99,000	110,000	2,089,000	10,110,000
2037	7,444,000	613,000	(11,000)	102,000	112,000	2,130,000	10,390,000
2038	7,667,000	631,000	(11,000)	105,000	115,000	2,194,000	10,702,000
2039	7,897,000	650,000	(11,000)	108,000	118,000	2,260,000	11,023,000
2040	8,134,000	670,000	(11,000)	111,000	122,000	2,328,000	11,354,000
2041	8,378,000	690,000	(11,000)	114,000	126,000	2,398,000	11,695,000
2042	8,629,000	711,000	(11,000)	117,000	130,000	2,470,000	12,046,000
2043	8,888,000	732,000	(11,000)	121,000	134,000	2,544,000	12,407,000
				Total			\$186,991,000

Source: CBRE Hotels

Our analysis of the total tax revenues for the City of Santa Monica is limited to measurable tax revenues which include direct sales tax, transient occupancy tax (TOT), property tax, business tax, utility tax, and parking tax revenues at the Fairmont Miramar. Furthermore, we have included in our analysis only the direct impact of on-site spending, and have not incorporated (i) the direct impact of spending at other Santa Monica businesses, (ii) the indirect impact, or "multiplier effect", or (iii) the impact of the construction of the redevelopment plan.

Our analysis excludes the following:

- The potential direct tax impacts of spending at other Santa Monica businesses;
- The potential indirect tax impacts as a consequence of the economic multiplier effect;
- Developer's estimate of permit fees to the City, likely in excess of \$13 million as part of the development process;
- The upside for a potential condominium rental pool program which is not currently in the operating model;
- One time transfer tax to the City from the sales of the residential units, estimated to be above \$1.4 million;
- Future re-sales of the condominiums, which would result in additional real estate tax revenue to the City;
- Fiscal impacts during the construction period; and finally,
- The incremental impact from the eventual sale by Ocean Avenue LLC of the redeveloped hotel, which would also likely result in a significantly higher assessed value.

It is our opinion that the proposed hotel redevelopment plan would bring significant incremental fiscal impact to the City of Santa Monica.

METHODOLOGY - EXISTING AND PROPOSED SCENARIOS

VALIDATION OF PROJECTIONS

We have developed projections for the current program and have reviewed your projections for the proposed redevelopment program. The following presents projections for the base case followed by our commentary on the projections.

Base Case – Current Program

The following presents the hotel's projected performance under its current program. Please note, our projections were derived from discussions with management and our understanding of the Santa Monica local hotel market based on recent engagements completed in the local area and discussions with individuals familiar with the dynamics of the hotel industry. It should be noted that in the existing scenario we have assumed that no major capital expenditures would be made to the site during the projection period beyond an ongoing capital reserve program, assumed to be 4.0 percent of revenues on an annual basis; an amount that is consistent with industry norms and typically required for the periodic replacement of certain short-lived items such as carpeting, draperies, and other furniture, fixtures and equipment.

Projected Performance – Current Program		
Year	Occupancy	ADR
2018	84%	\$446
2019	83	459
2020	83	473
2021	83	487
2022	83	502
2023	83	517
2024	83	533
2025	83	549
2026	83	565
2027	83	582
Stabilized (2018\$)	83%	\$446

¹Average Daily Rate (assuming 3% inflation).
Source: CBRE Hotels

We estimate that the hotel's occupancy level will moderate to 83 percent on a stabilized basis as it continues to target higher rated business. Although the Fairmont Miramar is ideally located to serve the high-end market, its opportunity is constrained by smaller guestrooms with three-fixture bathrooms, lack of food service offerings, and limited spa and fitness facilities. We estimate inflationary rate growth throughout the projection period leading to a \$446 stabilized rate in 2018 dollars. The following table presents a 26-year schedule of projected revenues. Please note, "other expenditure" includes retail spending, food and beverage, spa, and other minor departmental revenue that is subject to sales tax.

Current Program – 26-Year Projection of Revenues*					
	Total	Rooms	Other	Telephone	
	Revenue	Expenditure	Expenditure	Plus Utilities	Parking
2018 Rep	\$74,145,000	\$40,223,000	\$33,896,000	\$1,201,000	\$2,198,000
2018	75,022,000	40,713,000	34,309,000	1,201,000	2,198,000
2019	76,311,000	41,398,000	34,913,000	1,225,000	2,264,000
2020	78,623,000	42,663,000	35,960,000	1,249,000	2,332,000
2021	80,968,000	43,929,000	37,039,000	1,274,000	2,402,000
2022	83,435,000	45,285,000	38,150,000	1,312,200	2,474,000
2023	85,936,000	46,641,000	39,295,000	1,352,000	2,548,000
2024	88,469,000	47,996,000	40,473,000	1,392,000	2,624,000
2025	91,130,000	49,443,000	41,687,000	1,434,000	2,703,000
2026	93,917,000	50,979,000	42,938,000	1,477,000	2,784,000
2027	96,742,000	52,516,000	44,226,000	1,521,000	2,868,000
2028	99,605,000	54,052,000	45,553,000	1,567,000	2,954,000
2029	102,594,000	55,674,000	46,920,000	1,614,000	3,043,000
2030	105,672,000	57,344,000	48,328,000	1,662,000	3,134,000
2031	108,842,000	59,064,000	49,778,000	1,712,000	3,228,000
2032	112,107,000	60,836,000	51,271,000	1,764,000	3,325,000
2033	115,470,000	62,661,000	52,809,000	1,816,000	3,425,000
2034	118,934,000	64,541,000	54,393,000	1,871,000	3,528,000
2035	122,502,000	66,477,000	56,025,000	1,927,000	3,634,000
2036	126,177,000	68,472,000	57,706,000	1,985,000	3,743,000
2037	129,963,000	70,526,000	59,437,000	2,045,000	3,855,000
2038	133,861,621	72,641,366	61,220,255	2,105,728	3,971,000
2039	137,877,469	74,820,606	63,056,863	2,168,900	4,090,000
2040	142,013,794	77,065,225	64,948,569	2,233,967	4,213,000
2041	146,274,207	79,377,181	66,897,026	2,300,986	4,339,000
2042	150,662,434	81,758,497	68,903,937	2,370,015	4,469,000
2043	155,182,307	84,211,252	70,971,055	2,441,116	4,603,000

*Assuming only a 4.0% reserve for replacement
Source: CBRE Hotels

We find these projections reasonable for the hotel under its existing facilities program, which we concur is not optimal for the subject site.

Proposed Redevelopment

Based on our analysis, we are of the opinion that there is unsatisfied demand for luxury hotel rooms in the Santa Monica hotel market. As such, an opportunity for luxury hotel development exists. Taking the aforementioned into account, and utilizing the redevelopment plan as summarized herein, we have reviewed the projections for the proposed facilities. The following presents the hotel's projected performance following its redevelopment in 2022 and 2023.

Projected Performance – Redevelopment Program		
Year	Occ	ADR
2018	82%	\$531
2019	82	547
2020	82	564
2021	82	581
2022	(Closed)	
2023		
2024	71	827
2025	76	907
2026	81	962
2027	81	992
2028	81	833
Stabilized (2018\$)	81%	\$759
CBRE Hotels & The Athens Group		

ADR – The hotel’s stabilized ADR of \$759 in 2018 dollars positions it somewhat above the Casa Del Mar and Shutters on the Beach Hotels but well below the range of luxury Beverly Hill properties such as the Peninsula, Beverly Hills Hotel, and Bel Air Hotel. We find this ADR reasonable given the following:

- 18 percent suite mix and 14 percent grand deluxe (>500 square feet)
- 70 percent ocean view
- Newest luxury hotel in Los Angeles with prime location in the heart of the Santa Monica coastal zone

Casa Del Mar and Shutters on the Beach currently lead the Santa Monica market in terms of average rate. While high-quality hotels, these properties feature a smaller rooms product, low percentage of suite product, limited public facilities and meeting space, and a lower ocean view mix compared with the redeveloped Miramar. With a redeveloped program, and supported by the historical performance of newer luxury hotels such as Peninsula, Montage, and the expanded and renovated Hotel Bel Air, we find this rate positioning reasonable.

Occupancy – The hotel’s occupancy at 81 percent stabilized is seen as reasonable given the long-term average for the luxury segment in Santa Monica.

The following presents the projected revenues for the hotel over the next four years, during the predevelopment and construction phases of the proposed project, along with the first 20 years of operations.

Proposed Redevelopment Program Fiscal Impact to City of Santa Monica					
Hotel Operations					
	Total Revenue	Rooms Expenditure	Other Expenditure	Telephone Plus Utilities	Parking
2018 Rep	\$127,752,000	\$70,545,000	\$57,207,000	\$1,040,000	\$2,841,000
2018	75,022,000	40,713,000	34,309,000	1,201,000	2,198,000
2019	76,311,000	41,398,000	34,913,000	1,225,000	2,264,000
2020	78,623,000	42,663,000	35,960,000	1,249,000	2,332,000
2021	80,968,000	43,929,000	37,039,000	1,274,000	2,402,000
2022		(Closed)		637,136	(Closed)
2023				649,879	
2024	120,091,000	67,149,000	52,942,333	1,278,845	3,392,000
2025	137,274,000	78,226,000	59,048,173	1,304,422	3,494,000
2026	156,149,000	89,255,000	66,893,869	1,330,511	3,599,000
2027	166,687,000	92,045,000	74,642,475	1,357,121	3,707,000
2028	171,688,000	94,806,000	76,882,000	1,398,000	3,818,000
2029	176,839,000	97,650,000	79,188,000	1,440,000	3,933,000
2030	182,144,000	100,580,000	81,564,000	1,483,000	4,051,000
2031	187,608,000	103,597,000	84,011,000	1,527,000	4,173,000
2032	193,236,000	106,705,000	86,531,000	1,573,000	4,298,000
2033	199,033,000	109,906,000	89,127,000	1,620,000	4,427,000
2034	205,004,000	113,203,000	91,801,000	1,669,000	4,560,000
2035	211,154,000	116,599,000	94,555,000	1,719,000	4,697,000
2036	217,489,000	120,097,000	97,392,000	1,771,000	4,838,000
2037	224,014,000	123,700,000	100,314,000	1,824,000	4,983,000
2038	230,734,000	127,411,000	103,323,000	1,879,000	5,132,000
2039	237,656,000	131,233,000	106,423,000	1,935,000	5,286,000
2040	244,786,000	135,170,000	109,616,000	1,993,000	5,445,000
2041	252,130,000	139,225,000	112,904,000	2,053,000	5,608,000
2042	259,694,000	143,402,000	116,291,000	2,115,000	5,776,000
2043	267,485,000	147,704,000	119,780,000	2,178,000	5,949,000
CBRE Hotels & The Athens Group					

Food and Beverage and other Spend - Ownership has budgeted hotel operations and other expenditure to increase by approximately \$53.6 million for a representative year, largely driven by food and beverage spend of \$545 per occupied room and additional revenues captured by the spa, retail, and other facilities at the redeveloped site. We find this reasonable as it is in line with Casa Del Mar and Shutters on the Beach and above the range of some of the luxury Beverly Hills properties, but considers the new facilities and amenities including the highly successful Bungalow Lounge. Additionally, the subject currently captures revenues from local residents and others not necessarily staying at the hotel and is anticipated to continue to do so following the redevelopment.

The table on the following page presents a projection of revenues captured directly by the hotel. Whereas the prior table incorporated sales revenue at leased retail outlets, the table below factors in lease income for the retail and incorporates a resort fee into the rentals and other income line item.

Fairmont Redevelopment Program Projected Operating Results Calendar Years		2024		2025		2026		2027		2028	
Number of Units:		312		312		312		312		312	
Number of Annual Rooms Available:		113,880		113,880		113,880		113,880		113,880	
Number of Rooms Occupied:		80,855		86,549		93,382		93,382		93,382	
Annual Occupancy:		71.0%		76.0%		82.0%		82.0%		82.0%	
Average Daily Rate:		\$827.00		\$907.00		\$962.00		\$992.00		\$1,022.00	
Revenue Per Available Room:		\$587.17		\$689.32		\$788.84		\$813.44		\$838.04	
		Amount	Ratio								
Revenues											
Rooms		\$66,867,000	55.4%	\$78,500,000	56.6%	\$89,833,000	56.9%	\$92,635,000	54.9%	\$95,436,000	53.8%
Food & Beverage		45,804,000	37.9%	51,399,000	37.1%	58,566,000	37.1%	66,034,000	39.1%	71,659,000	40.4%
Telecommunications		30,000	0.0%	29,000	0.0%	29,000	0.0%	29,000	0.0%	29,000	0.0%
Spa		4,646,000	3.8%	5,025,000	3.6%	5,565,000	3.5%	5,732,000	3.4%	5,904,000	3.3%
Rentals and Other Income		3,397,000	2.8%	3,656,000	2.6%	3,965,000	2.5%	4,278,000	2.5%	4,524,000	2.5%
Total Revenues		120,744,000	100.0%	138,609,000	100.0%	157,958,000	100.0%	168,708,000	100.0%	177,552,000	100.0%
Source: CBRE Hotels											

EFFECT OF THE REDEVELOPMENT ON THE OVERALL HOTEL MARKET

Santa Monica offers a number of luxury and mid-level, full-service ocean front properties. Its waterfront location and vibrant atmosphere assist in making this market one of the strongest in the county. The stability of the market can be attributed to the presence of a stable commercial segment combined with high end group and leisure business. Local businesses consist of entertainment, financial services, and creative arts businesses that are based in Santa Monica. Many of the hotels in this market are located within walking distance of the Pacific Ocean, one of the most important demand generators in Southern California.

Based on the proposed redevelopment plans, it is our opinion that the redeveloped hotel will offer a higher-end luxury experience comparable to the top tier of Beverly Hills hotels. With its enviable location, and luxury construction, it is our expectation that the proposed redeveloped hotel will offer a luxury experience more distinguished than anything currently offered in the Santa Monica hotel market. Considering the stability in the market, and the high-level of hotel demand, the entry of a new product positioned at the top of the market is likely to effectively raise market-wide average daily rate and induce new luxury demand to the local area. We are of the belief that positioning the redeveloped product at the top of the Santa Monica hotel market will necessarily allow local area hotels to drive average daily rate and will facilitate marketing of Santa Monica as a premier luxury destination. The proposed redevelopment is likely to bring a unique, high quality lodging product to Santa Monica, which would enhance the stature and desirability of the destination.

RESIDENTIAL

One item not included in the figures above is the pricing and absorption of the residential units. We have reviewed the internal projections, which estimate an effective sales price of \$2,746 per square foot over a two-year sales period following one year of pre-sales. This equates to \$2,300 per square foot in 2018 dollars. Based on approximately 170,000 square feet of saleable square footage, and the estimate of a two-year absorption period with a one year period of pre-sales, we find the projected pricing and absorption reasonable. The site features a prime location and address and will be positioned as a luxury serviced residential project. We have reviewed a summary of 250+ sales in Santa Monica that achieved pricing over \$1,000 per square foot over

the past five years. In 2017, the sales prices for these comparable luxury condos ranged from \$1,043 to \$2,217 per square foot. Of these 250+ sales, more than one in four achieved a per square foot pricing of \$1,600 per square foot. Given the recent pricing at these projects and the industry trend of a 20 to 30 percent premium for branded serviced residential, we find \$2,300 per square foot reasonable.

FISCAL IMPACT ANALYSIS

Fiscal impact is the amount of tax revenue generated directly to the City of Santa Monica by visitor spending of hotel guests. This includes an estimation of the associated tax revenues (sales, property, business, utility, parking, and transient occupancy tax revenues) generated during a representative year (2018) and a 20-year period for the existing facilities and proposed redevelopment plan. This net result is the incremental fiscal impact to the City of Santa Monica. We have included in our fiscal impact analysis only the direct impact of spending at the redevelopment, and have not incorporated (i) the direct impact of spending at other Santa Monica businesses, (ii) the indirect impact, or “multiplier effect”, or (iii) the impact of the construction of the redevelopment plan.

Taxes and Other City Revenues

Tax collections represent a relatively large source of revenue generated by lodging facilities for the City of Santa Monica. Potential government revenues drawn from tourism-related projects include:

- Sales Tax
- Transient Occupancy Tax (TOT)
- Property Tax
- Business Tax
- Utility Tax
- Parking Tax

Our analysis of the total tax revenues for the City of Santa Monica as opposed to the larger market of Los Angeles County or the State of California, and is limited to measurable tax revenues which include direct sales tax, transient occupancy tax (TOT), property tax, business tax, utility tax, and parking tax revenues.

We have utilized the 2018 budgeted property tax expense for the “as is” scenario, and estimated property taxes for the proposed redevelopment using a development cost allocation of \$370,000,000 for the hotel and gross sales for the residential of \$466,875,000 based on projected sales pricing. Based on our research of the tax structure in Santa Monica, an estimated 12 to 20 percent of the real estate taxes remain (before direct assessments) within the city. We have utilized a rate of 18.7 percent, in addition to direct assessments, based on provided information. The following presents the estimated real estate tax stream under both scenarios:

Summary of Real Estate Tax Revenue to Santa Monica				
<i>Current Program</i>				
Year	Assessed Value	Property Tax @ 1.3026%	18.7% of General Levy + Assessments	% of Tax to Santa Monica
2018	\$120,841,147	\$1,528,021	\$407,962	27%
2019	123,257,970	1,558,582	416,070	27
2020	125,723,130	1,589,753	424,341	27
2021	128,237,592	1,621,548	432,776	27
2022	130,802,344	1,653,979	441,381	27
2023	133,418,391	1,687,059	450,157	27
2024	136,086,759	1,720,800	459,109	27
2025	138,808,494	1,755,216	468,240	27
2026	141,584,664	1,790,320	477,554	27
2027	144,416,357	1,826,127	487,054	27

Source: CBRE Hotels & The Athens Group

Summary of Real Estate Tax Revenue to Santa Monica				
<i>Redevelopment Program</i>				
Year	Assessed Value	Property Tax @ 1.3026%	18.7% of General Levy + Assessments	% of Tax to Santa Monica
2018	\$120,841,147	\$1,528,021	\$407,962	27%
2019	123,257,970	1,558,582	416,070	27
2020	125,723,130	1,589,753	424,341	27
2021	128,237,592	1,621,548	432,776	27
2022	130,802,344	1,653,979	441,381	27
2023	133,418,391	1,687,059	450,157	27
2024	681,250,000	8,614,321	1,746,714	20
2025	850,500,000	10,754,466	2,149,163	20
2026	867,510,000	10,969,555	2,192,095	20
2027	884,860,200	11,188,947	2,235,886	20

Source: CBRE Hotels

The current transient occupancy tax rate in the City of Santa Monica is 14.0 percent. The current retail sales tax that is contributed to the City is 1.50 percent of retail sales following the adjustment to 10.25 percent total tax. Business taxes for hotels are assessed after a base revenue of the first \$60,000 in gross total revenues, at a rate of \$1.25 per \$1,000 of gross total revenue over the base amount. According to the most recent 2017 figures available for the subject, utility taxes for the City of Santa Monica are 9.1 percent for electricity, 9.0 for gas, and 7.8 percent for water. For our analysis, we have used a weighted utility tax rate of between 8.9 and 9.7 percent (depending on the scenario being evaluated) as a result of certain exclusions. The current parking tax rate is 10.0 percent. The following table presents the tax revenues for the existing hotel and proposed redevelopment scenarios.

Operational Phase Measurable Tax Revenues			
Current Program Versus Proposed Redevelopment Program - Representative Year in 2018\$			
	Current Program (2018 as Stabilized)	Proposed Revitalization (2018 as Stabilized)	Incremental
Rooms Revenue	\$40,223,000	\$70,545,000	\$30,322,000
TOT Rate	14%	14%	14%
TOT Generated (rounded)	\$5,631,000	\$9,876,000	\$4,245,000
Sales Revenue (Meals & Beverages, Non-Food Retail, Entertainment, Transportation, Other)	\$33,896,000	\$57,207,000	\$23,311,000
Tax Rate	1.5%	1.5%	1.5%
Sales Tax Generated (rounded)	\$508,000	\$858,000	\$350,000
Assessed Value 2018 Rep	\$120,841,147	\$740,411,432	\$619,570,285
Representative Year RE Tax Based on 1.3026% (including assessments)	\$1,528,021	\$9,362,410	\$7,834,389
Percent to City of Santa Monica	26.7%	20.0%	
Property Taxes Generated to the City (rounded)	\$407,000	\$1,871,000	\$1,464,000
Hotel Gross Revenue	\$74,145,000	\$127,752,000	\$53,607,000
Business Tax Rate ¹	1.25	1.25	
Business Tax Generated to the City (rounded)	93,000	143,000	\$50,000
Stabilized Utility Tax (including Telephone)	\$1,201,000	\$1,040,000	(\$161,000)
Percent to the City of Santa Monica	8.9%	9.6%	
Utility Tax Generated to the City (rounded)	\$107,000	\$100,000	(\$7,000)
Stabilized Parking Revenue	\$2,198,000	\$2,841,000	\$643,000
Parking Tax (10.0%) (rounded)	\$220,000	\$284,000	\$64,000
TOTAL MEASURABLE TAX REVENUES TO THE CITY OF SANTA MONICA (ROUNDED)	\$6,966,000	\$13,132,000	\$6,166,000

¹Tax equates to \$75.00 for the first \$60,000 in Gross Revenues plus \$1.25 per additional \$1,000 of gross revenues over \$60,000.

- Based on the assumptions of occupancy and average daily rate upon stabilization, we have estimated transient occupancy tax for the existing facility of approximately \$5,631,000 in a representative year in 2018 dollars. Assuming redevelopment, the projected TOT in a stabilized year increases to approximately \$9,876,000, or an incremental tax revenue of approximately \$4,245,000.
- In addition to TOT, the City of Santa Monica is estimated to receive 1.50 percent of the sales tax generated from meals and beverages, transportation, non-food retail, entertainment, personal care, and other expenses. We estimate that approximately \$508,000 in sales tax revenue will be generated from expenditures by hotel visitors inside the existing hotel in a representative year in 2018 dollars. For the expanded facilities, we estimate a sales tax generation of approximately \$858,000, or incremental tax revenue of approximately \$350,000. This includes the addition of 6,000 square feet of retail space, much larger spa facility, and a significant increase in food and beverage and other departmental revenue capture.
- We have included in our analysis the property taxes that the City of Santa Monica will receive. We have estimated property tax revenues on the historical assessment amount and extrapolated for the redevelopment scenario based on allocated development costs and projected residential sales pricing. The City of Santa Monica collects approximately 12 to 20 percent of the property tax collected, depending on the composition of fixed versus variable assessments. We have utilized a rate of 18.7 percent of the general levy in addition to assessments. The fiscal impact of property tax revenue to the City of Santa Monica in a representative year of operation of the

subject hotel is approximately \$407,000 in 2018 dollars. The estimated tax to the City for year-end 2018 will be \$407,962, as follows:

Summary of 2018 Real Estate Tax Revenue to Santa Monica				
Year	Assessed Value	Property Tax @ 1.3026%	Tax to Santa Monica (18.7% + Assessments)	% of Tax
2018	\$120,841,147	\$1,528,021	\$407,962	26.7%

Source: CBRE Hotels & The Athens Group

Using similar methodology, we estimate a representative year tax assessment of approximately \$740,433,000 and a total tax stream to the City of approximately \$1,871,000 for the redevelopment scenario. This equates to approximately \$1,464,000 in incremental tax revenue.

- As a hotel within the City of Santa Monica, the site is subject to business taxes. The current tax rate is \$ 1.25 for every \$1,000 in gross total revenues over the base amount of \$60,000. In a stabilized year of operation, the existing subject property is assessed an estimated approximately \$93,000 in business tax, while the redeveloped hotel is estimated at approximately \$143,000 in 2018 dollars, or an incremental tax benefit of approximately \$50,000. Please note, business license fees are paid based on the prior year of operation. Our 20-year projection for the redevelopment scenario assumes closure in 2022 and 2023 and as such includes business tax in 2022 while excluding it in 2023 and 2024.
- Utility taxes for the site relative to gas, electric, and telephone expenses have been combined to yield a weighted average tax rate for utilities of between 8.9 and 9.7 percent. In a representative year of operation, the subject property is estimated to pay approximately \$107,000 in utility taxes. Under the proposed redevelopment, the estimated tax is approximately \$100,000 in 2018 dollars. This results in a negative incremental impact of approximately \$7,000, due in large part to a more sustainable design that is estimated to utilize less energy and less water.
- The facilities proposed for the expansion include up to an additional 261 parking spaces. The stabilized parking revenue for the existing facilities is estimated at approximately \$2,198,000, based on 2016 actuals and 2017 budget/reforecast. The tax rate for parking revenue is 10.0 percent in the City of Santa Monica, which results in a tax amount of approximately \$220,000. For the proposed redevelopment, we have estimated stabilized parking revenue of approximately \$2,841,000, or approximately \$284,000 in taxes in 2018 dollars. This results in incremental fiscal impact of approximately \$64,000 in a representative year. We have incorporated the addition of parking revenue from restaurant and retail guests and find these levels of revenue reasonable.
- The total fiscal impact associated with a representative year of operation of the current facilities is estimated at approximately \$6,966,000. Assuming redevelopment, we estimate a total fiscal impact of approximately \$13,132,000 in a representative year in 2018 dollars, or an incremental fiscal impact of approximately \$6,166,000.

In addition, we have calculated the tax revenue for a 26-year period beginning in 2018.

Current Program Fiscal Impact to City of Santa Monica							
	TOT	Sales Tax	Utilities	Business	Parking	Real Estate	Total
2018 Rep	\$5,631,000	\$508,000	\$107,000	\$93,000	\$220,000	\$407,000	\$6,966,000
2018	5,700,000	515,000	107,000	93,000	220,000	408,000	7,043,000
2019	5,796,000	524,000	110,000	95,000	226,000	416,000	7,167,000
2020	5,973,000	539,000	114,000	97,000	233,000	424,000	7,380,000
2021	6,150,000	556,000	117,000	99,000	240,000	433,000	7,595,000
2022	6,340,000	572,000	121,000	101,000	247,000	441,000	7,822,000
2023	6,530,000	589,000	124,000	103,000	255,000	450,000	8,051,000
2024	6,719,000	607,000	128,000	105,000	262,000	459,000	8,280,000
2025	6,922,000	625,000	132,000	107,000	270,000	468,000	8,524,000
2026	7,137,000	644,000	136,000	109,000	278,000	477,000	8,781,000
2027	7,352,000	663,000	140,000	112,000	287,000	487,000	9,041,000
2028	7,567,000	683,000	144,000	115,000	295,000	497,000	9,301,000
2029	7,794,000	704,000	148,000	118,000	304,000	507,000	9,575,000
2030	8,028,000	725,000	152,000	122,000	313,000	517,000	9,857,000
2031	8,269,000	747,000	157,000	126,000	323,000	527,000	10,149,000
2032	8,517,000	769,000	162,000	130,000	333,000	538,000	10,449,000
2033	8,773,000	792,000	167,000	134,000	343,000	549,000	10,758,000
2034	9,036,000	816,000	172,000	138,000	353,000	560,000	11,075,000
2035	9,307,000	840,000	177,000	142,000	363,000	571,000	11,400,000
2036	9,586,000	866,000	182,000	146,000	374,000	582,000	11,736,000
2037	9,874,000	892,000	187,000	150,000	386,000	594,000	12,083,000
2038	10,170,000	918,000	193,000	155,000	397,000	606,000	12,439,000
2039	10,475,000	946,000	199,000	160,000	409,000	618,000	12,807,000
2040	10,789,000	974,000	205,000	165,000	421,000	630,000	13,184,000
2041	11,113,000	1,003,000	211,000	170,000	434,000	643,000	13,574,000
2042	11,446,000	1,034,000	217,000	175,000	447,000	656,000	13,975,000
2043	11,790,000	1,065,000	224,000	180,000	460,000	669,000	14,388,000

Proposed Redevelopment Program Fiscal Impact to City of Santa Monica							
	TOT	Sales Tax	Utilities	Business	Parking	Real Estate	Total
2018 Rep	\$9,876,000	\$858,000	\$100,000	\$143,000	\$284,000	\$1,871,000	13,132,000
2018	5,700,000	515,000	107,000	93,000	220,000	408,000	7,043,000
2019	5,796,000	524,000	110,000	95,000	226,000	416,000	7,167,000
2020	5,973,000	539,000	114,000	97,000	233,000	424,000	7,380,000
2021	6,150,000	556,000	117,000	99,000	240,000	433,000	7,595,000
2022			61,000	101,000		441,000	603,000
2023			63,000			450,000	513,000
2024	9,401,000	794,000	123,000		339,000	1,747,000	12,404,000
2025	10,952,000	886,000	126,000	143,000	349,000	2,149,000	14,605,000
2026	12,496,000	1,003,000	128,000	164,000	360,000	2,192,000	16,343,000
2027	12,886,000	1,120,000	131,000	187,000	371,000	2,236,000	16,931,000
2028	13,273,000	1,153,000	135,000	193,000	382,000	2,281,000	17,417,000
2029	13,671,000	1,188,000	139,000	199,000	393,000	2,327,000	17,917,000
2030	14,081,000	1,223,000	143,000	205,000	405,000	2,374,000	18,431,000
2031	14,504,000	1,260,000	147,000	211,000	417,000	2,421,000	18,960,000
2032	14,939,000	1,298,000	151,000	217,000	430,000	2,469,000	19,504,000
2033	15,387,000	1,337,000	156,000	224,000	443,000	2,518,000	20,065,000
2034	15,848,000	1,377,000	161,000	231,000	456,000	2,568,000	20,641,000
2035	16,324,000	1,418,000	166,000	238,000	470,000	2,619,000	21,235,000
2036	16,814,000	1,461,000	171,000	245,000	484,000	2,671,000	21,846,000
2037	17,318,000	1,505,000	176,000	252,000	498,000	2,724,000	22,473,000
2038	17,838,000	1,550,000	181,000	260,000	513,000	2,778,000	23,120,000
2039	18,373,000	1,596,000	186,000	268,000	529,000	2,834,000	23,786,000
2040	18,924,000	1,644,000	192,000	276,000	545,000	2,891,000	24,472,000
2041	19,492,000	1,694,000	198,000	284,000	561,000	2,949,000	25,178,000
2042	20,076,000	1,744,000	204,000	293,000	578,000	3,008,000	25,903,000
2043	20,679,000	1,797,000	210,000	302,000	595,000	3,068,000	26,651,000

Incremental Fiscal Impact Beginning 2018							
	TOT	Sales Tax	Utilities	Business	Parking	Real Estate	Total
2018 Rep	\$4,245,000	\$350,000	(\$7,000)	\$50,000	\$64,000	\$1,464,000	\$6,166,000
2018							
2019							
2020							
2021							
Begin Operation of Redeveloped Hotel							
2022	(6,340,000)	(572,000)	(59,673)		(247,000)		(7,219,000)
2023	(6,530,000)	(589,000)	(61,447)	(103,000)	(255,000)		(7,538,000)
2024	2,682,000	187,000	(5,000)	(105,000)	77,000	1,288,000	\$4,124,000
2025	4,030,000	261,000	(6,000)	36,462	79,000	1,681,000	6,081,462
2026	5,359,000	359,000	(8,000)	55,389	82,000	1,715,000	7,562,389
2027	5,534,000	457,000	(9,000)	75,227	84,000	1,749,000	7,890,227
2028	5,706,000	470,000	(9,000)	78,000	87,000	1,784,000	8,116,000
2029	5,877,000	484,000	(9,000)	81,000	89,000	1,820,000	8,342,000
2030	6,053,000	498,000	(9,000)	83,000	92,000	1,857,000	8,574,000
2031	6,235,000	513,000	(10,000)	85,000	94,000	1,894,000	8,811,000
2032	6,422,000	529,000	(11,000)	87,000	97,000	1,931,000	9,055,000
2033	6,614,000	545,000	(11,000)	90,000	100,000	1,969,000	9,307,000
2034	6,812,000	561,000	(11,000)	93,000	103,000	2,008,000	9,566,000
2035	7,017,000	578,000	(11,000)	96,000	107,000	2,048,000	9,835,000
2036	7,228,000	595,000	(11,000)	99,000	110,000	2,089,000	10,110,000
2037	7,444,000	613,000	(11,000)	102,000	112,000	2,130,000	10,390,000
2038	7,668,000	632,000	(12,000)	105,000	116,000	2,172,000	10,681,000
2039	7,898,000	650,000	(13,000)	108,000	120,000	2,216,000	10,979,000
2040	8,135,000	670,000	(13,000)	111,000	124,000	2,261,000	11,288,000
2041	8,379,000	691,000	(13,000)	114,000	127,000	2,306,000	11,604,000
2042	8,630,000	710,000	(13,000)	118,000	131,000	2,352,000	11,928,000
2043	8,889,000	732,000	(14,000)	122,000	135,000	2,399,000	12,263,000
Total							\$171,750,000

Source: CBRE Hotels

CONCLUSIONS

The estimated fiscal impact of the proposed redevelopment program to the City of Santa Monica is expected to be material. We have estimated a total impact of approximately \$13,132,000 in a representative year in 2018 dollars for the hotel redevelopment. This equates to an increase of approximately 89 percent from the existing facilities.

As summarized in the chart above, the estimated incremental fiscal impact for the 2018 to 2043 period for the expanded facilities is approximately \$172 million. This included four years of operation with the current room count and meeting and parking facilities before the redevelopment begins. Following two years of construction, the redeveloped hotel is projected to open in 2024. Our analysis includes 20 years of operation under the redeveloped hotel scenario.

Including the first 20 years of operation of the redeveloped facilities only, the incremental fiscal impact increases to approximately \$187 million.

Incremental Economic and Fiscal Impact for 20 Year Period Beginning 2024							
	TOT	Sales Tax	Utilities	Business	Parking	Real Estate	Total
2018 Rep	\$4,245,000	\$350,000	(\$7,000)	\$50,000	\$64,000	\$1,464,000	\$6,166,000
2024	2,682,000	187,000	(5,000)	(105,000)	77,000	1,288,000	4,124,000
2025	4,030,000	261,000	(6,000)	36,462	79,000	1,681,000	6,081,462
2026	5,359,000	359,000	(8,000)	55,389	82,000	1,715,000	7,562,389
2027	5,534,000	457,000	(9,000)	75,227	84,000	1,749,000	7,890,227
2028	5,706,000	470,000	(9,000)	78,000	87,000	1,784,000	8,116,000
2029	5,877,000	484,000	(9,000)	81,000	89,000	1,820,000	8,342,000
2030	6,053,000	498,000	(9,000)	83,000	92,000	1,857,000	8,574,000
2031	6,235,000	513,000	(10,000)	85,000	94,000	1,894,000	8,811,000
2032	6,422,000	529,000	(11,000)	87,000	97,000	1,931,000	9,055,000
2033	6,614,000	545,000	(11,000)	90,000	100,000	1,969,000	9,307,000
2034	6,812,000	561,000	(11,000)	93,000	103,000	2,008,000	9,566,000
2035	7,017,000	578,000	(11,000)	96,000	107,000	2,048,000	9,835,000
2036	7,228,000	595,000	(11,000)	99,000	110,000	2,089,000	10,110,000
2037	7,444,000	613,000	(11,000)	102,000	112,000	2,130,000	10,390,000
2038	7,667,000	631,000	(11,000)	105,000	115,000	2,194,000	10,702,000
2039	7,897,000	650,000	(11,000)	108,000	118,000	2,260,000	11,023,000
2040	8,134,000	670,000	(11,000)	111,000	122,000	2,328,000	11,354,000
2041	8,378,000	690,000	(11,000)	114,000	126,000	2,398,000	11,695,000
2042	8,629,000	711,000	(11,000)	117,000	130,000	2,470,000	12,046,000
2043	8,888,000	732,000	(11,000)	121,000	134,000	2,544,000	12,407,000
Total							\$186,991,000

Source: CBRE Hotels

Our analysis of the total tax revenues for the City of Santa Monica is limited to measurable tax revenues which include direct sales tax, transient occupancy tax (TOT), property tax, business tax, utility tax, and parking tax revenues at the Fairmont Miramar. We have not incorporated (i) the direct impact of spending at other Santa Monica businesses, (ii) the indirect impact, or “multiplier effect”, or (iii) the impact of the construction of the redevelopment plan.

Our analysis excludes the following:

- The potential direct tax impacts of spending at other Santa Monica businesses.
- The potential indirect tax impacts as a consequence of the economic multiplier effect;
- Developer’s estimate of permit fees to the City, likely in excess of \$13 million as part of the development process;
- The upside for a potential condominium rental pool program which is not currently in the operating model;
- One time transfer tax to the City from the sales of the residential units, estimated to be above \$1.4 million;
- Any re-sales of the condominiums, which would likely result in additional real estate tax revenue to the City as real estate prices escalate;
- Fiscal impacts during the construction period; and finally,
- The incremental impact from the eventual sale by Ocean Avenue LLC of the redeveloped hotel, which would also likely result in a significantly higher assessed value.

It is our opinion that the proposed hotel redevelopment plan would bring significant incremental fiscal impact to the City of Santa Monica.