

**GARDEN GROVE REDEVELOPMENT PROJECT
GARDEN GROVE, CALIFORNIA**

**SUMMARY REPORT
PERTAINING TO THE DISPOSITION
OF CERTAIN PROPERTY WITHIN THE
GARDEN GROVE COMMUNITY
PROJECT AREA**

**California Community Redevelopment Law
Section 33433**

**PURSUANT TO PROPOSED FIRST AMENDED AND RESTATED
DISPOSITION AND DEVELOPMENT AGREEMENT
BETWEEN
GARDEN GROVE AGENCY FOR
COMMUNITY DEVELOPMENT
AND
GARDEN GROVE MXD, LLC**

**Garden Grove Agency for Community Development
Garden Grove, California**

April 2010

**SUMMARY REPORT PURSUANT TO
SECTION 33433
OF THE
CALIFORNIA COMMUNITY REDEVELOPMENT LAW**

**FIRST AMENDED AND RESTATED DISPOSITION
AND DEVELOPMENT AGREEMENT
BY AND BETWEEN THE
GARDEN GROVE AGENCY FOR COMMUNITY DEVELOPMENT
AND
GARDEN GROVE MXD, LLC.**

A. INTRODUCTION

The Garden Grove Agency for Community Development (Agency) entered into a Disposition and Development Agreement (Original Agreement) with Garden Grove MXD, LLC (Developer) on May 12, 2009 for the project described in Section I.A., Summary Report (Summary Report). The Agency is now entering into a First Amended and Restated Agreement (Agreement).

Before property acquired by a Redevelopment Agency can be conveyed to the Developer, the City Council and the Redevelopment Agency Board must approve such transaction after a joint public hearing in accordance with Section 33433 of the California Health and Safety Code. Section 33433 provides that a copy of the Agreement and the Summary Report, which describes and specifies certain information, must be available for public inspection prior to the public hearing.

A Summary Report has been prepared in accordance with the requirements of Section 33433. In addition to providing a general description of the project, this Summary Report describes the following:

- I. **Salient Points of the Agreement:** This section summarizes the major responsibilities imposed on the Developer and the Agency by the Agreement.
- II. **Cost of the Agreement to the Agency:** This section details the total cost to the Agency associated with implementing the Agreement.
- III. **Estimated Value of the Interests to be Conveyed Determined at the Highest Use Permitted under the Redevelopment Plan:** This section estimates the value of the interests to be conveyed determined at the highest use permitted for the Site and the requirements imposed by the Redevelopment Plan.
- IV. **Estimated Reuse Value of the Interests to be Conveyed:** This section summarizes the valuation estimate for the Site based on the required scope of development and other conditions and covenants required by the Agreement.

anniversary date of the date of the Agreement, the Developer shall be entitled to an amount equal to the following : (i) Fifty percent (50%) of the tax increment revenue generated from the Hotel Expansion, (ii) plus fifty percent (50%) of the net increase in transient occupancy tax revenues generated by the Hotel after the opening of the Hotel Expansion (iii) plus fifty percent (50%) of the net increase in sales tax generated by the Developer Improvements after the opening of the Hotel Expansion.

2. Time Extension. The schedule of performance allows for two (2) six month extensions, the first to occur on April 12, 2012 and the second on October 12, 2012 upon the happening of certain events.

C. Agency Responsibilities Under the Agreement

In addition to the Agency responsibilities outlined in the Salient Points of the Agreement summary, the Agency must accept the following responsibilities:

1. Covenant Consideration. The Agency shall pay the Developer all cash sum of forty-seven million dollars (\$47,000,000) as follows: (a) five million dollars (\$5,000,000) concurrently with the commencement of construction of the parking structure, and (b) forty-two million dollars (\$42,000,000) thirty (30) days after the later of the date on which (i) the Hotel opens for business or (ii) the certificate of occupancy for the Hotel.
2. Non-Compete. The Agency shall not enter into a Disposition and Development Agreement and/or assist another Hotel for a period of six (6) years beginning January 1, 2010.
3. Additional Property. The Agency acquired additional property located at 12601 and 12602 Leda Lane to be conveyed to the Developer for the proposed Project.

II. COST OF THE AGREEMENT TO THE AGENCY

The estimated costs incurred by the Agency to implement the Agreement are Sixty-Nine Million Two Hundred Ninety-Nine Thousand Dollars (\$69,299,000), and include the following:

Agency costs to acquire the Site (relocation costs, demolition costs, and costs for hazardous materials abatement), CEQA documentation, site preparation, administrative costs, and the Agency costs for other public improvement's \$22,299,000. Agency to provide direct financial assistance to the Developer for the Project is \$47,000,000.

III. ESTIMATED VALUE OF THE INTERESTS TO BE CONVEYED DETERMINED AT THE HIGHEST AND BEST USE PERMITTED UNDER THE REDEVELOPMENT PLAN

concluded that the consideration to be received is equal to or greater than the established fair use value.

VI. BLIGHT ELIMINATION

The Redevelopment Plan (Plan) for the Garden Grove Community Project Area governs the Site. In accordance with Section 33490 of the California Community Redevelopment Law, the Plan contains the goals and objectives and the projects and expenditures proposed to eliminate blight within the Project Area.

The Site, approximately 11.7 acres, which will be used to develop the Project, is currently occupied with one (1) non-fixed recreational vehicle park, one (1) retail store, one (1) vacant parcel, and two (2) single-family homes. The development of the proposed Project on the Site will eliminate blight at this location by replacing substandard uses, underutilized land, uneconomic land uses, and obsolete structures with defective design in character and physical condition with a new high quality, mixed-use development. The Project will facilitate land assembly to prevent piecemeal development that would leave economic potential underachieved, re-plan, redesign and develop underdeveloped areas that are stagnant or improperly utilized, encourage private sector investment in development of the project areas, and strengthen hospitality, entertainment, retail and other commercial functions in the project areas

VII. CONFORMANCE WITH THE AB 1290 IMPLEMENTATION PLAN

The primary AB 1290 Implementation Plan program objective for the Garden Grove Community Project is to eliminate conditions, which negatively impact economic development of the community by acquiring, removing, consolidating and rehabilitating substandard properties. To that end, the Agency plans to convey the Site to the Developer for the development of the Project.

Furthermore, the Agency's Implementation Plan 2010 through 2014 (Implementation Plan) also establishes a priority objective of increasing the community's economic base by encouraging new investment in the redevelopment project area. The Implementation Plan explicitly lists ensuring that optimum generation of sales tax revenues by facilitating the reuse, rehabilitation and development of commercial properties as an Agency goal. The Project, which will provide new commercial development and the subsequent transient occupancy and sales tax revenues, and property tax increment within the redevelopment project area, conforms to the Implementation Plan, and will achieve goals specifically defined in the Implementation Plan.

The Project is identified in the Implementation Plan as a potential project and program for the project area. As such the completion of the Project will be in conformance with the Implementation Plan.



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March 23, 2010

Mr. Greg Blodgett
Project Manager
Garden Grove Agency for Community Development
11222 Acacia Parkway, 3rd Floor
Garden Grove, CA 92840

Sent via: greg1@ci.garden-grove.ca.us
714-741-5124

Re: Estimated Reuse Value – 800 Key Waterpark Hotel Site Proposed for Development by McWhinney Enterprises – Constructed in Two Phases

Dear Mr. Blodgett:

We have completed our analysis of the reuse value of approximately 11.7 acres (the "Site") comprised of property owned by the Agency ("Agency Property") and property owned by third parties ("Third Party Property") located on Harbor Boulevard in Garden Grove, California. This letter is subject to the attached statement of general assumptions and limiting conditions. This document is supplemental to, and should be read in conjunction with, the 33433 report provided to you dated March 23, 2010, which describes a proposed 600-key Waterpark Hotel (Phase I). This 33433 report reflects a 200-key expansion (Phase II) to the Phase I property, for a total of 800 keys by 2016.

Background

As noted in the previous 33433, the Garden Grove Agency for Community Development ("Agency") plans to redevelop the subject site to eliminate existing conditions of blight. Garden Grove MXD, a Colorado limited liability company formed by McWhinney Real Estate Services ("Developer") will build approximately 600 hotel rooms with a 100,000 square foot water park and amenities as described in our March 23, 2010 33433 report. In that report, Horwath provided an estimate of the reuse or residual value of the Site given the terms and conditions of the proposed Disposition and Development Agreement (DDA) between the Agency and Developer for 600 keys. Subsequent to that report, Agency has requested Horwath provide the reuse value of the site based on a 200-key addition (Phase II), for a total of 800 keys.

Conclusion

Assuming a scope of development as proposed by the Developer and the development costs (excluding land cost), compared to the estimated income and development values that can be reasonably expected from the Project components, Horwath estimates the Project generates a negative reuse value inclusive of agency assistance of \$41,000,000.

This financial gap is consistent with general urban hotel development in the current market, resulting in significant barriers to entry with financial gaps noted in many developments.

comparable facilities as well as conversations with hotel and waterpark developers, consultants and owners. The actual development costs will undoubtedly differ from the Developer's current estimates and the differences may be material. Nevertheless, for purposes of this analysis, Horwath increased the Developer's estimate for time (inflation). Based on the residual methodology assumed for this analysis, the difference between the market value via the Income approach and the total cost of development will equal the value of the land. The detail provided on each development project is reflected in the chart in Addendum C-1. The combined development cost of the waterpark and hotel, as estimated by Horwath, totals \$332 million as of completion of construction (rounded).

Estimated Residual Reuse Value

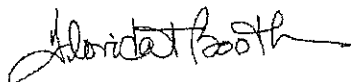
The residual or reuse value is based on estimating the value of the completed and operating Project less all development costs. The remainder represents the amount the Developer could afford to pay for the Project Site.

Horwath has estimated the Project market value based on a current market capitalization rate of 10.0% and discount rate of 13%. This represents the estimated yield required by purchasers of operating hotels of the type planned, based on industry trends contained in the Korpacz Real Estate Investor Survey[®] Third Quarter 2009 (the most recent survey available).

The total indicated value of the Project is \$291 million, after considering all Agency assistance. After allowing for total development costs of \$332 million, the indicated residual value of the Project Site, including Agency assistance, is a negative \$41 million.

We appreciate the opportunity to present this analysis to you. If there are any questions after you have had the opportunity to review it, please do not hesitate to call us at your convenience. Thank you once again for the opportunity to be of service.

Sincerely,



Florida T. Booth, MAI, CCIM
Managing Director
Horwath Hospitality & Leisure LLC

ADDENDUM A

Waterpark Hotel Garden Grove																							
	Keys		2013		2014		2015		2016		2017		2018		2019		2020		2021		2022		
	Year	600	66.0%	\$355	72.0%	\$366	72.0%	\$377	72.0%	\$388	72.0%	\$400	72.0%	\$412	72.0%	\$424	72.0%	\$437	72.0%	\$450	72.0%	\$463	
<i>(Presented in \$000's)</i>																							
Revenues																							
Rooms		\$51,312		\$57,656		\$59,385		\$61,167		\$63,002		\$64,892		\$66,839		\$68,844		\$70,909		\$73,037			
Food and Beverage		17,959		20,179		20,785		21,408		22,051		22,536		23,032		23,538		24,056		24,585			
Other		7,953		8,937		9,205		9,481		9,792		9,980		10,200		10,424		10,683		10,888			
Total Revenue		77,224		86,772		89,375		92,056		94,845		97,408		100,071		102,806		105,648		108,510			
Less Total Expenses		(57,146)		(64,211)		(66,138)		(68,121)		(70,185)		(71,709)		(73,287)		(74,898)		(76,569)		(78,231)			
NOI Before Debt Service		\$20,078		\$22,561		\$23,238		\$23,935		\$24,660		\$25,195		\$25,750		\$26,316		\$26,902		\$27,486			

Waterpark Hotel Garden Grove																							
	Keys		2013		2014		2015		2016		2017		2018		2019		2020		2021		2022		
	Year	200	40.0%	\$361	56.0%	\$368	56.0%	\$375	56.0%	\$383	56.0%	\$390	56.0%	\$398	56.0%	\$406	56.0%	\$406	56.0%	\$406	56.0%	\$406	
<i>(Presented in \$000's)</i>																							
Revenues																							
Rooms		\$10,531		\$15,038		\$15,339		\$15,645		\$15,958		\$16,277		\$16,603		\$16,930		\$17,257		\$17,584			
Food and Beverage		3,897		5,619		5,788		5,961		6,140		6,324		6,514		6,704		6,894		7,084			
Other		1,632		2,331		2,377		2,425		2,474		2,523		2,573		2,622		2,671		2,720			
Total Revenue		16,060		22,988		23,504		24,032		24,572		25,125		25,690		26,246		26,801		27,356			
Less Total Expenses		(11,884)		(17,011)		(17,393)		(17,783)		(18,183)		(18,592)		(19,011)		(19,430)		(19,849)		(20,268)			
Add 50% Subsidy		871		1,177		1,201		1,226		1,250		1,276		1,301		1,327		1,352		1,377			
NOI Before Debt Service		\$5,046		\$7,154		\$7,312		\$7,474		\$7,639		\$7,808		\$7,981		\$8,150		\$8,319		\$8,492			

ADDENDUM C - 1

Garden Grove Project Cost Budget				
	Parking ^(1,2)	Waterpark Hotel	200-Key Addition	Total Cost
Hard Construction Total	\$3,600,000	\$216,000,000	\$46,500,000	
Annual Inflation at 3%	6.0%	6.0%	14.0%	
Assumed Start Date	2011	2011	2014	
Hard Construction Inflated \$	3,816,000	228,960,000	53,010,000	\$ 285,786,000
Other Expenses		45,792,000		45,792,000
Total Development Cost	3,816,000	274,752,000	53,010,000	331,578,000
Total Construction Costs (rounded)				\$ 332,000,000

Notes:

1. Parking garage construction costs not included as they will be funded through a Mello Roos.. Restaurant parking estimated at 180 spaces at \$20,000 per space.
2. Retail/Restaurant construction costs to be borne by Lessee.
3. Waterpark hotel "other" estimated at 20% of developer cost estimates
4. 200-key addition costs provided by general contractor, therefore, no "other" expenses were estimated
5. Construction costs for Waterpark Hotel were inflated from 2009 value dollars; 200-key addition was inflated from 2010 value dollars for 4.5 years

Source: McWhinney Enterprises & Horwath+L

ADDENDUM C - 2

Residual Land Value	Total
Project Market Value	\$291,000,000
Construction Cost	(332,000,000)
Land Value	(\$41,000,000)

Source: Horwath+L

STATEMENT OF GENERAL ASSUMPTIONS AND STANDARD LIMITING CONDITIONS

Maps, Plats and Exhibits: Maps, plats and exhibits included in the Report are for illustration only to serve as an aid in visualizing matters discussed within the Report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced or used apart from the Report.

Legal Matters: No opinion is intended to be expressed for matters which require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate Consultants.

Renovation and Development Costs: Consultant is not an architectural or construction firm and is not qualified to prepare renovation and/or development cost estimates. Any and all renovation and development cost estimates are based on Consultant's general knowledge of costs at comparable facilities. The actual renovation and/or development costs of the subject property will differ from Consultant's estimates and the differences may be material.

Right of Publication: Possession of the Report, or a copy of it, does not carry with it the right of publication. The Report shall not be used for any purpose by any person other than the party to whom it is addressed without the express written consent of Consultant. In any event, the Report shall be used only with proper written qualification and only in its entirety for its stated purpose.

Testimony in Court: Testimony or attendance in court or at any other hearing is not required by reason of rendering the Report, unless such arrangements are made a reasonable time in advance of said hearing. Further, unless otherwise indicated, separate arrangements shall be made concerning compensation for Consultant's time to prepare for and attend any such hearing.

Archeological Significance: No investigation has been made by Consultant and no information has been provided to the Consultant regarding potential archeological significance of the subject property or any portion thereof. The Report assumes no portion of the subject property has archeological significance.

Compliance with the American Disabilities Act: The Americans with Disabilities Act ("ADA") became effective January 26, 1992. Consultant assumes that the property is, or shall be, be in direct compliance with the various detailed requirements of the ADA.

Definitions and Assumptions: The definitions and assumptions upon which analyses are based are set forth in appropriate sections of the Report and are to be part of these general assumptions as if included here in their entirety.

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