

Hotel, Tourism and Leisure

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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

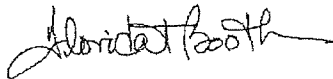
The residual or reuse value is based on estimating the value of the completed and operating Project less all development costs. The remainder represents the amount the Developer could afford to pay for the Project Site.

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



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ADDENDUM A

Waterpark Hotel Garden Grove												
Keys		600										
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022		
Occupancy	66.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%
Average Daily Rate	\$355	\$366	\$377	\$388	\$400	\$412	\$424	\$437	\$450	\$463		
<i>(Presented in \$000's)</i>												
Revenues												
Rooms	\$51,312	\$57,656	\$59,385	\$61,167	\$63,002	\$64,892	\$66,838	\$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		200										
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022		
Occupancy				40.0%	56.0%	56.0%	56.0%	56.0%	56.0%	56.0%	56.0%	56.0%
Average Daily Rate				\$361	\$368	\$375	\$383	\$390	\$398	\$406		
<i>(Presented in \$000's)</i>												
Revenues												
Rooms				\$10,531	\$15,038	\$15,339	\$15,645	\$15,958	\$16,277	\$16,603		
Food and Beverage				3,897	5,619	5,788	5,961	6,140	6,324	6,514		
Other				1,632	2,331	2,377	2,426	2,474	2,523	2,573		
Total Revenue				16,060	22,988	23,504	24,032	24,572	25,125	25,690		
Less Total Expenses				11,884	(17,011)	(17,393)	(17,783)	(18,183)	(18,592)	(19,011)		
Add 50% Subsidy				871	1,177	1,201	1,226	1,250	1,276	1,301		
NOI Before Debt Service				\$5,046	\$7,154	\$7,312	\$7,474	\$7,639	\$7,808	\$7,981		

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

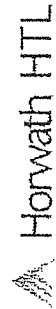
Notes:

1. Parking garage construction costs not included as they will be funded through a Meilo 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 & HorwathHL

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

Source: HorwathHL



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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.

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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, in direct compliance with the various detailed requirements of the ADA.

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