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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.

REUSE VALUATION APPROACH

The reuse or residual value is based on an analysis of the Project development. Since the Developer will construct the property on the Site provided, the reuse value will indicate what the Site can be expected to support based on the economics of the planned hotel development and operation. Horwath used the Income approach in establishing the reuse value of the Site. The residual value approach values the Site based on the income generated by the Project and estimates the amount the Developer can afford to pay for the Site given the estimated market value of the Project, development costs and developer profit. The reuse value assumes the terms of a \$42 million bond and \$5 million toward site/garage improvements in Phase I from Agency, and a 50% share of the tax revenues ("Subsidy") from transient occupancy (TOT), sales and real property to the Developer (Phase II).

Methodology

The highest and best use of the site, as presented in the March 23, 2010 33433, identified the site as a redevelopment opportunity that will allow Hotels, Retail, Dining and Entertainment development. The Site will afford significant synergies as well as tax revenues (property, sales and transient occupancy) along with other benefits such as jobs creation and a clean-up and redevelopment of the area.

Proposed Development – Phase II

For purposes of this analysis, the construction of Phase II will begin in mid-2014, with 2016 as the first full operating year of the rooms addition. Since Developer in Phase II will receive a Subsidy for this rooms addition, a separate analysis of the 200 keys was necessary. This result was then combined with Phase I in order to determine an overall reuse value. A lower occupancy and average daily rate for the Phase II rooms was forecast, consistent with performance declines experienced after the rooms addition at the Great Wolf Waterpark Hotel in Grapevine, Texas. Further, Horwath also decreased the ratio of "other revenue" as a ratio of room sales, based on information from Great Wolf management. A summary of the water park hotel's estimated operating performance, broken down by the 600 key and 200 key scenarios is shown in Addendum A.

Addendum B reflects 10 years of cash flows (in addition to a residual year) for the Project, discounted to present value dollars. The income column titled "Developer Subsidy" consists of an agreed upon \$5 million contribution by Agency toward the construction of the parking garage and site preparation as well as a \$42 million contribution through bond financing for the 600 key scenario, and the Subsidy described previously for the 200 key addition. Finally, additional income will be generated from two ground leases (proposed restaurants). The net income streams for the Project were totaled, and assuming market capitalization rates and a discount rate of 13% (per Horwath), the cash flows were discounted back to present value dollars to arrive at a market value based on the Income approach. As shown on the chart in Addendum B in the Addenda, the total combined market value of the Project via the Income approach is estimated at \$291 million.

Development Costs

Horwath is not an architectural or construction firm and is not qualified to prepare precise development cost estimates. Construction cost estimates were provided by the Developer for the development scenario, which was compared with development cost estimates based on Horwath's general knowledge of costs at



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

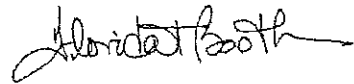
The residual or reuse value is based on estimating the value of the completed and operating Project less all development costs. The remainder represents the amount the Developer could afford to pay for the Project Site.

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,

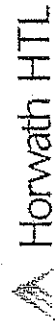


Florida T. Booth, MAI, CCIM
Managing Director
Horwath Hospitality & Leisure LLC

ADDENDA

Waterpark Hotel Garden Grove																					
Keys Year	2013		2014		2015		2016		2017		2018		2019		2020		2021		2022		
	600	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%
Occupancy	66.0%	\$355	\$366	\$377	\$388	\$400	\$412	\$424	\$437	\$450	\$463										
Average Daily Rate																					
<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 Year	2013		2014		2015		2016		2017		2018		2019		2020		2021		2022		
	200	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	56.0%	56.0%	56.0%	56.0%	56.0%	56.0%	56.0%	56.0%	56.0%	
Occupancy					40.0%																
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	2,425	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	1,228	1,250	1,276	1,301														
NOI Before Debt Service	\$5,046	\$7,154	\$7,312	\$7,474	\$7,639	\$7,808	\$7,981														



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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

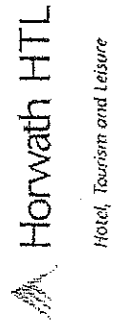
Notes:

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 Lessees.
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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VALUATION - DISCOUNTED CASH FLOW

Period	Ground Leases		Water Park Hotel		Developer Subsidy ⁽²⁾	+200-Keys		Total of Revenues	13.00% PV Factor	Unrounded Present Value
	Projected NOI ⁽¹⁾	Projected NOI ⁽¹⁾	Projected NOI ⁽¹⁾	Projected NOI ⁽¹⁾		Projected NOI ⁽¹⁾	Subsidy ⁽³⁾			
2013	\$276,000	20,078,000	20,078,000	\$47,000,000				\$67,354,000	0.884956	\$59,605,310
2014	276,000	22,561,000	22,561,000	0				22,837,000	0.783147	17,884,721
2015	276,000	23,238,000	23,238,000	0				23,514,000	0.693050	16,296,382
2016	276,000	23,935,000	23,935,000	0	\$4,175,513	\$870,809		29,257,322	0.613319	17,944,063
2017	276,000	24,660,000	24,660,000	0	5,976,816	1,177,386		32,090,202	0.542760	17,417,276
2018	320,000	25,195,000	25,195,000	0	6,110,962	1,201,215		32,827,177	0.480319	15,767,501
2019	320,000	25,750,000	25,750,000	0	6,248,229	1,225,528		33,543,757	0.425061	14,258,131
2020	320,000	26,316,000	26,316,000	0	6,388,693	1,250,337		34,275,030	0.376160	12,892,890
2021	320,000	26,902,000	26,902,000	0	6,532,431	1,275,651		35,030,082	0.332885	11,660,983
2022	320,000	27,486,000	27,486,000	0	6,679,523	1,301,480		35,787,003	0.294588	10,542,434
Reversion	3,450,000	262,880,000	262,880,000		63,420,000			329,750,000	0.294588	97,140,508
									ROUNDED	\$291,000,000

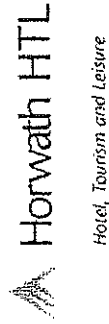
1. Projected NOIs provided by developer, inflated at 3% for the reversion year.

2. Developer subsidy to consist of \$5M contribution toward parking garage construction and \$42M bond financing in year 1.

3. 50% of collected tax revenues (transient occupancy, sales and real property).

Source: Horwath+L

Note: The financial projections and investment analysis presented herein contain estimates and assumptions based on information provided to Horwath by the City of Garden Grove, our knowledge of the Garden Grove hotel supply and current market conditions. Horwath Hospitality & Leisure LLC neither warrants nor guarantees these projections and analyses since unanticipated events may occur, and actual results may be materially affected.



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Indemnification: Except as to consultant's gross negligence, Client shall indemnify and hold harmless Consultant from and against any and all matters arising out of or in connection with the Engagement.

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Statements and Estimates: Any and all forward looking statements and estimates prepared by Consultant are based on assumptions that are inherently subject to uncertainty and variation. Consultant does not represent or warrant that the estimated results will actually be achieved. Client understands that the actual results will differ from the estimated results and that the differences may be material. The forward looking statements and estimates are based, in part, on the assumption of competent and efficient management.

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Hidden Conditions: Consultant assumes no responsibility for hidden or unapparent conditions of the property, subsoil, ground water, or structures that affect the operation of the subject property or render it more or less valuable. No responsibility is assumed for arranging for engineering, geologic, or environmental studies that may be required to discover such hidden or unapparent conditions. Consultant is not qualified to investigate or test for such hidden or unapparent conditions.

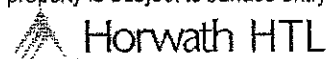
Hazardous Materials: Consultant has not been provided any information regarding the presence of any material or substance on or in any portion of the subject property or improvements thereon, which material or substance possesses or may possess toxic, hazardous and/or other harmful and/or dangerous characteristics. Unless otherwise stated in the findings of the Engagement, Consultant did not become aware of the presence of any such material or substance during Consultant's inspection of the subject property. Consultant is not qualified to investigate or test for the presence of such materials or substances. The presence of such materials or substances may adversely affect the operating performance and value of the subject property. The estimates in the Report, including any value estimates, are predicated on the assumption that no such material or substance is present on or in the subject property or in proximity thereto that would affect the operation of the subject property or cause a loss in value. Consultant assumes no responsibility for the presence of any such substance or material on or in the subject property, nor for any expertise or engineering knowledge required to discover the presence of such substance or material. Unless otherwise stated, the findings of the Engagement are based on the assumption that the subject property is in compliance with all federal, state and local environmental laws, regulations and rules.

Zoning and Land Use: Unless otherwise stated, any and all estimates were formulated assuming the subject property to be in full compliance with all applicable zoning and land use regulations and restrictions.

Licenses and Permits: Unless otherwise stated, the subject property is assumed to have all required licenses, permits, certificates, and approvals required by legislative and/or administrative authority from any and all local, state, or national governments or from private entities and organizations and that the licenses, permits, certificates, and approvals can be obtained or renewed for any use on which the estimates contained in the Report are based.

Engineering Survey: No engineering survey has been made by Consultant, nor is Consultant qualified to perform an engineering survey. Except as specifically stated, data relative to size and area of the subject property was taken from sources considered reliable and no encroachment of the subject property is assumed to exist.

Subsurface Rights: No opinion is expressed as to the value of subsurface oil, gas or mineral rights or whether the property is subject to surface entry for the exploration or removal of such materials, except as is expressly stated.



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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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