REPORT OF THE
CHIEF LEGISLATIVE ANALYST

DATE: May 20, 2016

TO: Honorable Members of the City Council

FROM: Sharon M. Tso
Chief Legislative Analyst

Assignment No:16-05-0427

GRAND AVENUE HOTEL AND PARKING
2016 REVISED HOTEL INCENTIVE EVALUATION

SUMMARY

In May 2008, the Council approved actions to provide financial assistance in the amount of $60.5 million to The Related Companies (Developer) in its effort to construct a hotel on Parcel Q in the Grand Avenue Project in Downtown Los Angeles (Project, CF#07-0332). Soon after approval of the agreements for this phase of the Project, the economic downturn restricted private funding resources and the Project stopped moving forward.

In 2013, the Developer and the Grand Avenue Authority (Authority) agreed on a new design for Parcel Q. These plans were formally approved in January 2014 and included an SLS hotel, retail consisting mostly of rental units, and commercial uses. Motion (Huizar-Price, CF# 13-1694) authorized the Chief Legislative Analyst (CLA) to evaluate the feasibility and economic impact of the proposed revisions to the Project, resulting in a determination that the Project had a feasibility gap of $162.9 million, of which $101.3 million was due to the hotel. Recommended assistance of $47.3 million net present value (npv, at 10%), with additional funding of up to $58.2 million npv available contingent upon proportional assistance provided by the County of Los Angeles (County), was approved by Council, and the CLA was instructed to negotiate final documents to provide assistance.

In early 2015, the Developer presented the Authority with additional revisions to the Project that resulted in significant changes to the fiscal and economic structure of the deal, which required a complete revision to the fiscal and economic analysis of the project. Motion (Huizar-Fuentes, CF# 13-1694–S1, Attachment A) was adopted authorizing the CLA to conduct a revised economic and fiscal analysis to evaluate the impact of these changes.

This report presents findings from the revised fiscal and economic analysis for the 2015 configuration of the Project. The report finds that the Project has a $117.4 million feasibility gap and would be eligible for up to $66.6 million in financial incentive support from the City. If the Council chooses to provide incentive support for the Project, a determination would need to be made concerning the financial incentive model that would be provided. This report also includes a discussion of the various financial incentive package models that may be used to provide assistance to the Project.

RECOMMENDATIONS

If the Council chooses to proceed with support for the Grand Avenue Hotel project, a financial incentive model (provided in the table on page 8 of this report) would need to be selected and instruction provided to the Chief Legislative Analyst to negotiate definitive documents to provide that incentive, as well as authorize the Mayor to execute a Memorandum of Understanding with The Related Companies outlining terms for the project incentive, in the following form:

1. Authorize the Mayor to execute a Memorandum of Understanding between the City of Los Angeles and The Related Companies concerning terms for agreements necessary to provide a revenue participation agreement to close the financing gap in the Grand Avenue Hotel;

2. Direct the Chief Legislative Analyst (CLA) and with assistance of the City Attorney and other City departments as necessary to negotiate the final definitive documents necessary to provide a revenue participation agreement to support the Grand Avenue Hotel Project for consideration by Council.

FISCAL IMPACT STATEMENT

There is no fiscal impact on the City General Fund associated with this action, inasmuch as City staff are being instructed to report with definitive documents necessary to provide a future revenue participation agreement for the Grand Avenue Hotel Project. The City and Developer would share the net new revenue generated by the project.

BACKGROUND

The Authority was created through a Joint Exercise of Powers (JPA) agreement entered into by the County of Los Angeles (County), The Community Redevelopment Agency of the City of Los Angeles, California (CRA) (which has been succeeded by The Community Redevelopment Agency of the City of Los Angeles, California, a designated local agency, CRA/DLA), and the City of Los Angeles (City) in September 2003. The Authority was charged with facilitating the development of the Project on four parcels of land owned by the CRA and the County, referred to as parcels Q, L, M-2, W-2 in the Bunker Hill Redevelopment Project Area. The Authority conducted a competitive solicitation to identify a developer for the Project and selected The Related Companies in 2004.

In May 2008, the Council approved actions to provide financial assistance to the Developer with its effort to construct the first phase of the Grand Avenue Project (Project) (CF# 07-0332), which included a hotel, retail, and housing on the County of Los Angeles-owned parcel at the corner of Grand Avenue and First Street in Downtown Los Angeles, known as Parcel Q. Soon after approval of the agreements for this Project, the economic downturn restricted private funding resources and Parcel Q development stopped moving forward.

In 2013, the Developer and the Authority agreed on a new design for Parcel Q (2014 Design). These plans were formally approved in January 2014 and included an SLS Hotel, retail consisting mostly of rental units, and commercial uses. Motion (Huizar-Price, CF# 13-1694) authorized the CLA to evaluate the feasibility and economic impact of the proposed revisions to the Project, resulting in a determination that the Project had a feasibility gap of $162.9 million, of which $101.3 million was due to the hotel. Recommended assistance of $47.3 million net present value (npv, at 10%), with additional funding of up to $58.2 million npv available contingent upon proportional assistance provided by the County of Los Angeles (County), was approved by Council. In addition, the CLA was instructed to negotiate final documents to provide assistance, referred to as the 2014 Incentive Plan.

In early 2015, the Developer presented the Authority with additional revisions to the Project that resulted in significant changes to the fiscal and economic structure of the deal. The commercial element of the Project was removed entirely, the housing mix was shifted to increase the number of ownership units, a revised retail plan was submitted, and the hotel was substituted with a new hotel brand to be operated by the Equinox Fitness. Subsequently, Motion (Huizar-Fuentes, CF# 13-1694–S1) was adopted authorizing the CLA to conduct a revised economic and fiscal analysis to evaluate the impact of these changes.

The revised fiscal and economic analysis of the Project (2015 Design) prepared by Rosenow Spevacek Group (RSG, Attachment B) has determined that the Project now has a feasibility gap of $117.4 million. The Project is estimated to generate $396.9 million ($133.3 million npv) in net new site specific tax revenues. Under previously approved terms, the Project would qualify for $49.9 million npv in assistance, with maximum assistance of up to $59.3 million npv contingent upon proportional assistance provided by the County. As with previous assistance terms, the Project would also receive up to $7.6 million in parking tax revenues, to be repaid. Consistent with City policy, the Project would receive no more than 50% of net new site specific revenues estimated to be generated by the Project, in this case no more than $66.6 million npv. In addition, consistent with City policy, the Project would:

-- benefit the General Fund with at least $198.5 million ($66.6 million npv);
-- generate 3,597 new temporary jobs and 1,996 permanent jobs; and,
-- implement a community benefits package

Under the 2014 Incentive Plan, if the County provided its proportionate share of net new revenues to the Project, the County Base, then the City would provide additional incentive for any funds contributed by the County above the County Base. The Developer has now requested that, since the City's initial contribution of $49.9 million npv (pursuant to the recent RSG analysis) is not contingent on any County participation, the City consider an alternative matching formula. Specifically, the Developer has requested that the City now provide additional incentive funding for any matching contribution by the County, without the requirement that the County first provide the full County Base.

Project History

The Project is intended to create an urban destination on Bunker Hill with an active regional center based around a hotel, entertainment, restaurant, office, and retail uses. This is expected to complement the existing government, cultural, and residential uses in the area. Improving public spaces has also been a focus, including transforming the former County Mall into the 16-acre Grand Park stretching from City Hall to the Music Center, together with numerous streetscape improvement projects.

Parcel Q was identified as the primary development opportunity and designated for development in Phase I of the Project. This component included a hotel, residential, a large plaza to host public events and programming, restaurants, and retail. A significant component of the Parcel Q approvals was a requirement that the Developer pay $50 million for redevelopment of the park located between the various County buildings between Temple and First Streets, Grand Avenue and Spring Street, now known as Grand Park.

In May 2008, the Council approved actions to provide financial assistance in the amount of $60.5 million to The Related Companies for its effort to construct a hotel on Parcel Q in the Project. Soon after approval of the agreements for this phase of the Project, the economic downturn restricted private funding resources and the Project stopped moving forward. In compliance with the Project agreements, however, the Developer did provide the $50 million payment for, and commenced construction on, improvements to Grand Park. The park was completed and opened in July 2012.

Since 2008, improvements for Parcel L and Parcel M-2 were also approved. The Broad Museum took responsibility for the development of Parcel L, and opened in 2015. The Developer initiated development of Parcel M-2 with a 20-story, 271-unit residential tower with ground floor restaurant and other retail uses. A 24,000 square foot public plaza is planned for the space between Parcel L and Parcel M-2. Parcels Q and W-2 remain undeveloped.

County Participation

Unlike other hotel developments considered or approved by the City, the Grand Avenue Project is a unique cooperative development between the City and the County. The concept of a cooperative project is that each of the parties contribute to a solution. As such, the County has a role in providing financial assistance for the Project. As shown above, the Project has a feasibility gap and the City's financial support does not solve that gap.

The draft MOU, therefore, provides that County participation is essential to support this Project and that degree of City participation is contingent upon County participation. The City would provide a base amount of funding, but additional funding from the City would be provided only in proportion to its share of the total net new revenue generated for both the City and the County.

The RSG analysis included a review of net new County revenues to be generated for the County by the Grand Avenue Project. It should be noted that County revenues are lower than those generated by the City because the County tax base is limited to new property tax revenues. The County does not benefit from transient occupancy tax (TOT), parking occupancy tax (POT), utility users tax, or other similar types of tax revenues.

2014 Parcel Q Design

On January 14, 2014, the Authority approved a revised concept plan and project description for the development of Parcel Q of the Project. The 2014 Design was comprised of two towers built upon a podium that provided 1,350 parking spaces. The program included approximately 200,000 square feet of dining and entertainment venues, restaurants, retailers and a series of small shops; a public plaza with public programs and amenities; a pavilion for special events; a hotel; approximately 48,000 square feet of office space; and 450 rental and condominium housing units, 20% of which would be affordable to low income households.

The hotel component included 300 rooms and associated amenities. The Developer selected sbe, a Los Angeles-based firm, which operates the SLS hotel brand. The SLS Hotel in the Grand Avenue Project was expected to meet or exceed a four-star service level and integrate the hotel amenities with various other retail and restaurant components of the Project.

In 2014, Council approved a hotel incentive for the Grand Avenue Hotel that provided:

-- $47.3M npv (81% of net new revenues)

-- Additional incentive could be provided under the following circumstances:
  * The County provides $10.9M (19% of net new revenues)
  * For each additional $19 the County provides, the City will provide an additional $81, with the City providing up to an additional $10.9M.
  * Essentially, the County would need to contribute $13.5M in order for the City to contribute the maximum incentive of $58.2M

-- Up to $4.7M in parking revenues, to be repaid

-- This agreement would have provided the Developer with <u>a minimum City Contribution of $52M</u> npv ($47.3M + $4.7M Parking) without any County participation. Maximum City Contribution with County participation would have been $62.9M npv ($58.2M + $4.7M).

2015 Parcel Q Design

In early 2015, the Developer submitted a refined project description for the Authority's consideration, including a change in the hotel brand. These Project refinements altered the economics of the Project, resulting in a need for a revised economic and fiscal analysis.

The Project now includes the following:

- 305-key, four-star Equinox-branded hotel, fitness center and associated uses
- 301 mixed-income apartments
- 128 for-sale condominiums
- 213,683 gross square feet of restaurant and retail space
- 1,500 parking spaces

This new mix of uses increases the number of ownership housing units, slightly increases the amount of retail space, and entirely eliminates the commercial space. The Developer also proposes to change the retail program from high-end retailers to lifestyle retailers. In addition, the SLS hotel brand is replaced with the Equinox hotel brand, a new product under development by the Equinox fitness and lifestyle brand.

RSG estimated that Parcel Q will generate net new revenues of approximately $396.9 million ($133.3 million npv) cumulatively for the City and County. The City portion of those net new revenues is 84% and the County's share is 16%. These proportions, applied to the total TOT generated by Parcel Q, would result in the City providing financial support of $49.9 million npv. If the County provides support up to 16%, or $9.4 million in incentive support, the City would provide additional support matching the County's contribution, up to $59.3 million npv.

The original Grand Avenue agreement included a provision to provide POT revenues collected in the first ten years, with a provision for those revenues to be repaid from Project parking revenues once the Project received the full amount of POT designated. The MOU retains this element, providing a maximum of $12.7 million ($7.6 million npv) within the first ten years of the Project. These funds would then be repaid fully to the City from Project parking revenues.

Financial Support Options

Parcel Q has a development financing gap of $117.4 million. The total TOT generated by Parcel Q is $59.3 million. Under the 2014 Design MOU terms, the City would provided an amount that is equivalent to the City's proportion of net new revenue relative to the total net new revenue generated by the City and the County.

The Developer notes that this amount is not enough to fill the finance gap for Parcel Q and has requested that the City provide additional financial support measured by an amount up to the total TOT. Since the City could provide up to $59.3 million and remain in compliance with its policy on economic development of hotels, greater participation by the City is possible.

The revised incentive package for the 2015 Design under the 2014 Design MOU Framework would be:

- $49.9M npv (84% of net new revenues)

- Additional incentive could be provided under the following circumstances:
  * The County provides $9.4 million (16% of net new revenues)

- * For each additional $16 the County provides, the City will provide an additional $84, with the City providing up to an additional $9.4M.
- * Essentially, the County would need to contribute $10.9M in order for the City to contribute the maximum incentive of $59.3M

-- Up to $7.6 million in parking revenues, to be repaid

-- This agreement would provide Grand Avenue with <u>a minimum City Contribution of $57.5M</u> npv ($49.9M + $7.6M Parking) without any County participation. Maximum City Contribution with County participation would be $66.6M npv ($59.3M + $7.3M Parking).

It should be noted that the total amount of parking revenue will require adjustment to ensure that the Project will receive no more than 50% of net new revenue, consistent with City policy.

To date, the Developer has been diligently seeking County participation, but no funds have been made available. The Developer, therefore, has requested that the City consider an alternative incentive model that could be structured in one of two ways, as follows.

-- Make the provisions consistent with the agreement in 2008. Originally, the Council approved a hotel incentive that provided an amount measured by all TOT plus parking revenues, with parking revenues to be repaid, without any County participation. Under the 2015 Design, based on the most recent economic impact report, this would provide:
- * $59.3 million based on TOT receipts
- * $7.3 million in parking revenues, to be repaid
- * Maximum Contribution of $66.6M

-- Alternately, the additional contribution by the City could be activated by any County contribution. The City would provide additional incentive in the amount of $84 for every $16 the County provides without the requirement that the County first provide the initial match of $9.4M. In this case, the City would provide
- * $49.9M
- * Additional City contribution of $84 for every $16 the County provides
- * Essentially, the County would need to contribute $1.8M in order for the City to contribute the maximum incentive of $59.3M
- * Up to $7.6 million in parking revenues, to be repaid

-- This agreement would provide Grand Avenue with <u>a minimum City Contribution of $57.5M</u> npv ($49.9M + $7.6M Parking) without any County participation. Maximum City Contribution with County participation would be $66.6M npv ($59.3M + $7.3M Parking).

The table below compares the incentive options for the Project.

Contribution	2008 Model	2014 Model	Alternate 2014 Model
City Base	$59.3 million npv	$49.9 million npv	$49.9 million npv
County Base	$0	$9.7 million npv	$0
Maximum Additional County	$0	$1.8 million npv	$1.8 million npv
Parking Tax	$7.3 million npv	$7.3-7.6 million npv	$7.3-7.6 million npv
Minimum City	$66.6 million npv	$57.5 million npv	$57.5 million npv
Maximum City	$66.6 million npv	$66.6 million npv	$66.6 million npv

Memorandum of Understanding

A draft Memorandum of Understanding (MOU) included as Attachment C to this report provides terms that would serve as the basis for negotiation of the definitive documents necessary to establish the revenue sharing agreement between the City and the Developer. The terms are framed on the information discussed above:

- Revenue participation would range between $49.9 million npv and $59.3 million npv, based on the proportionate share of the City's net new revenues compared to the County's net new revenues at a ratio of 84% City to 16% County.

- City participation will be based upon participation by the County: if the County does not participate, the City will not provide additional funding above $49.9 million for the Project.

- POT will be provided for a term of 10 years or for an amount of $7.9 million npv, whichever comes first. Once either the term or the amount has been met, the Developer will begin reimbursement of funds received based on net revenues earned by the Project parking facility.

- The hotel will achieve and maintain a four star rating as defined and as determined by the Mobil Travel Guide, or at an equivalent level by an alternative nationally recognized hotel rating service for the duration of the Term.

- The Developer shall provide a Community Benefits Package, including affordable housing, local hiring, living wage requirements, job training and job creation, open space, and inclusion of art elements.

- The Developer shall ensure that the City is designated as the "point of sale" for construction related costs.

If the Council and Mayor determine that an incentive should be provided for the Project, the MOU should be approved and the Mayor authorized to execute the MOU. It should be noted that the MOU is an advisory document intended to guide further negotiations. It is not a binding document.

FINDINGS – 2015 PROJECT REVISIONS

The Block Grant Investment Fund (BGIF) Policy, adopted by Council in 1996 and revised in 2001, provides the guidelines under which the City's assistance for hotels is based. The following provides findings in compliance with the BGIF policy.

Summary of Financial Study

RSG was retained to conduct the initial analysis of the 2014 Design, and then directed to prepare an analysis of the revised 2015 Design. Attachment B contains the study of the 2015 project revisions, titled "Grand Avenue Feasibility and Economic Impact Assessment" and dated December 1, 2015. In this report, RSG evaluates development costs for each element of the Project, as well as cash flow that results from the project components.

The result of the feasibility analysis is a determination that the Project has a feasibility gap of $117.4 million. The hotel alone has a feasibility gap of $123.5 million, which is partially offset by surpluses in the condominium and retail portions of the Project. The remaining gap indicates that the Project is not feasible without financial support from the City.

In addition to the feasibility analysis of the Project, RSG evaluated the fiscal impact of the Project on City revenues. Analysis shows that this Project would generate new property tax, sales tax, TOT, POT, utility users tax, business gross receipts tax, and other local revenues estimated at $133.3 million npv ($396.9 million). Of that total, $59.3 million npv ($189.1 million) is generated from the TOT.

The analysis supports providing incentive funding of up to $66.6 million, with the City General Fund receiving at least $66.6 million in new revenues.

Substantial City Public Benefit

The Authority was created in September 2003 to facilitate development of several of the final parcels cleared for development under the former Bunker Hill Redevelopment Area. Development of the Project would result in the construction of significant retail, entertainment, and housing on one of the last undeveloped sites within the former Bunker Hill Redevelopment Area. Current use as a County-controlled parking structure does not generate meaningful revenues for the City's General Fund, nor does it provide a robust set of higher services to the local community or region. Development of the Project would provide long-term economic benefits for Downtown and the region, while attracting tourists and supporting the creation of new jobs in the region's tourism industry.

RSG has evaluated the job creation potential of the Project. Their analysis has determined that the Project would create 3,597 new direct full-time and part-time jobs and 1,914 indirect full-time and part-time temporary construction jobs. Once completed and operational, the Project would create approximately 1,996 permanent full-time and part-time jobs.

The RSG study evaluated new General Fund revenues that would be generated by the Project, beginning with initiation of construction and continuing through 25 years after opening of the hotel. The analysis determined that the Project would generate $396.9 million in net new General Fund revenue for the City. If the City provides a financial incentive, the City General Fund would receive a minimum of $198.5 million ($66.6 million npv) in new revenues.

In addition, the Developer has agreed to include community benefit as previously approved, including local hiring, living wage, job training, and inclusion of arts elements. The full Community Benefits package will be finalized in the final Hotel Development Incentive Agreement if Council chooses to provide an incentive.

Financial Need

The RSG analysis has determined that the Project has a $117.4 million financing gap. The Project cannot reasonable proceed without additional financial assistance to address this gap. The City's incentive of up to $66.6 million would address only a part of this gap, requiring the Developer to absorb the remainder of the gap, seek assistance from another source such as the Authority or the County, or design the Project to achieve greater efficiencies or cost savings.

The RSG study evaluated all proposed uses in the Project and estimated development costs of each of these elements. Table 13 in the RSG study shows the cost and valuation of these Project elements and the return associated with each. The analysis shows that the retail and condominium elements of the Project have a positive balance, while the multifamily and hotel elements of the Project have significant gaps. The hotel, in particular, has a very large gap. The sum of the Project costs is a total gap of $117.4 million. As a result, the Developer is not receiving an undue financial return on the Project as a whole and a significant feasibility gap remains despite a positive balance in some elements in the Project.

Project Readiness

The Developer has control of Parcel Q through a Disposition and Development Agreement (DDA) and Ground Lease with the Authority. The City previously approved the Fourth Amendment to the DDA. The Authority and the Developer are currently negotiating a Fifth Amendment to the Development Agreement. The City will have an opportunity to review and approve that Fifth Amendment. In all amendments, however, the Developer has retained control of the site.

Equity investment has been secured, contingent upon approval of the project by the City and Authority. The Authority has completed due diligence on the equity investment agreement and staff will recommend approval of the agreement to the Authority Board. With City approval of the MOU and the Fifth Amendment and associated documents, the equity investment can proceed which makes possible the securing of construction and other necessary financing in compliance with the DDA's required Schedule of Performance as updated by the Fifth Amendment.

Conformance with other Requirements

In the MOU (Attachment C), the Developer agrees to implement a Community Benefits Package that was previously approved by the City for development of the Hotel and other portions of Parcel Q. The package includes affordable housing, local hiring, living wage requirements, job training and job creation, open space, and inclusion of art elements.

Site Specific Revenue

The RSG analysis calculated site specific revenues that would be generated by the project. As noted previously, the project will receive no more than 50% of net new revenue generated by the project. As a result, the General Fund will receive an estimated $198.5 million in new revenues over the life of this agreement.

This incentive is structured so that no payment will be made to the Developer until after the Project has been constructed, opened, and generating TOT. As a result, the General Fund is fully protected from making any payment that has not been earned.

Attachments:

A Motion (Huizar-Fuentes) CF# 13-1694

B "Grand Avenue Feasibility and Economic Impact Assessment" by RSG, December 1, 2015

C Memorandum of Understanding Between the City of Los Angeles and Grand Avenue L.A., LLC

ATTACHMENT A
Motion (Huizar-Fuentes)
CF# 13-1694-S1

ECONOMIC DEVELOPMENT

MOTION

In July 2014, the City Council approved a Memorandum of Understanding (MOU) with The Related Companies (Developer) concerning development assistance for the Grand Avenue Project, one of the most significant urban development projects in Los Angeles. The proposed residential, commercial, retail, and entertainment components to this project will create a dynamic setting for the City's economic and artistic endeavors. The City's participation in the project involves financial support for the development of a four-star hotel.

At the time of approval, the City tentatively approved the brand that would operate the hotel, and financial assistance based upon the mix of residential, commercial, and retail uses in the project. Subsequently, the Developer has determined that another brand operator would be more appropriate for the project. In addition, the mix of uses in the project has been revised to respond to market conditions.

As a result, the terms of the MOU must be revised and a new financial and economic analysis must be conducted to ensure that City provides the appropriate level of assistance to the project. In order to obtain the new analysis, the Developer will be required to provide additional funds to allow the City to conduct an independent financial and economic study. The revised analysis will then inform the Council's future decisions with regard to any potential financial support for the project.

The Grand Avenue Project has been a significant priority for the City and the County of Los Angeles. It is essential that we make every effort to facilitate development of the project, but we must do so in a manner that adheres to the City's economic development policies. A revised financial and economic analysis, funded by the Developer, is critical to meet these objectives.

I THEREFORE MOVE that the City Council:

1. AUTHORIZE AND INSTRUCT the Chief Legislative Analyst (CLA) to hire consultants necessary to evaluate the project and accept an additional $50,000 for consultant services from the Developer; request/authorize/instruct the City Controller to deposit/appropriate/expend all funds received as a result of this action in Fund 100, Department 28, Contractual Services Account 3040; and authorize the CLA to make any technical corrections, revisions, or clarifications to the above instructions in order to effectuate the intent of this action; and

2. INSTRUCT the CLA, with assistance of the City Administrative Officer and City Attorney, to negotiate any necessary amendments to the Memorandum of Understanding related to the Grand Avenue Hotel project and submit them to City Council for approval.

PRESENTED BY: ______________________

Jose Huizar
Councilmember, 14th District

SECONDED BY: ______________________

JUN 3 0 2015

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JUN 3 0 2015

ATTACHMENT B
"Grand Avenue Feasibility
And Economic Impact
Assessment"

RSG
December 1, 2015

OFFICE OF THE CHIEF LEGISLATIVE ANALYST
CITY OF LOS ANGELES
200 N SPRING ST
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LOS ANGELES CA 90012

GRAND AVENUE FEASIBILITY AND ECONOMIC IMPACT ASSESSMENT

UPDATED
DECEMBER 1, 2015

RSG

ROSENOW SPEVACEK GROUP, INC
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INTRODUCTION

In our report dated June 3, 2014 ("2014 Report"), Rosenow Spevacek Group, Inc. ("RSG") reviewed the financial feasibility and fiscal and economic impacts of The Related Companies' ("Developer") 1.7 million-square-foot mixed-use development known as Grand Avenue Los Angeles. The project site is 100 S. Grand Avenue, also known as Parcel Q, in the Bunker Hill area of downtown Los Angeles. The 2014 Report concluded that the development was infeasible, with a shortfall of approximately $162.9 million. Further, the 2014 Report concluded that if the project were developed as proposed at that time, the net new General Fund revenues to the City of Los Angeles ("City") could reach an aggregate of $138.3 million (present value over 25 years), and the project could directly generate approximately 3,600 construction (temporary) jobs and another 1,588 permanent jobs. The 2014 Report also estimated that the County of Los Angeles ("County"), who with the City participated in the Los Angeles Grand Avenue Authority ("JPA") as signatory of the Developer's Disposition and Development Agreement ("DDA"), could see a cumulative net present value impact of $32.1 million in net new General Fund revenues if the project were developed as proposed at that time.

In June 2015, RSG was retained by our client, the City's Office of the Chief Legislative Analyst ("CLA") to update the 2014 Report in light of changes to the development program proposed by the Developer earlier this year. The current development program entails a change to the proposed hotel operator, alterations to the ideal retail tenant mix and positioning strategy, an increase in the number of condominium units, a reduction in multifamily units, and an elimination of the office component, among other changes described herein ("Project"). This updated report ("Report") reflects the results of our revised analysis.

This report presents our revised findings on the proposed Project, including overall feasibility of the Project, net fiscal impact of the Project to the City and the County, and the total economic impacts, including jobs, within the City and County.

As was previously the case, this Report stands as an independent assessment of the overall terms, conditions, and impacts of the Project. It is our understanding that the City intends to use this information to determine whether the current Project requires financial assistance, as requested, and the level and type of such assistance that is needed.

The Project description, development cost, feasibility gap, and site-specific tax revenues presented in this Report are primarily based upon information provided by the Developer in August 2015. Though refinements to the Project are inevitable at this stage, our conclusions are subject to change should the development program be materially altered.

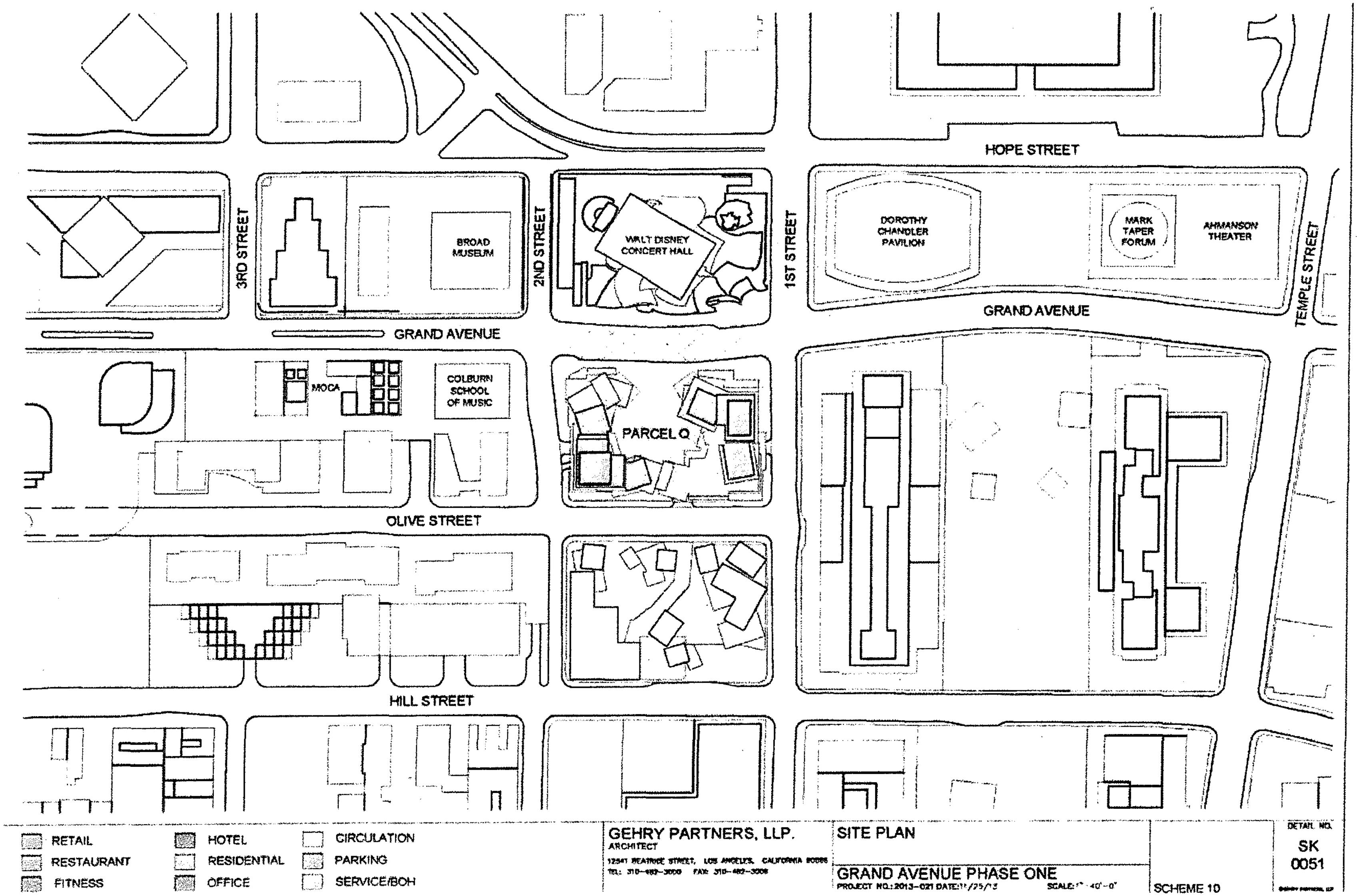

Figure 1: Conceptual Site Plan (January 2014)

EXECUTIVE SUMMARY

The Developer provided RSG a June 3, 2015 feasibility analysis (consisting of a one-page pro forma and supporting documentation), upon which RSG conducted our review. The Developer's pro forma estimated a development gap of approximately $175.0 million[1] across the entire Project, inclusive of land and Developer sunk costs. (In addition to independently calculating the estimated feasibility of the Project, RSG also reviewed the economic and fiscal impacts of the Project; neither of these studies was separately prepared by the Developer.)

RSG, along with our hotel subconsultant PKF Consulting ("PKF")[2], independently evaluated the assumptions presented by the Developer, and pursued follow-up inquiries and research with the Developer, the City and our own independent research where appropriate. Therefore, some of the information contained herein relies on the data provided by the Developer, with some variations as detailed in this Report.

In general, RSG concludes that the Project faces a significant funding shortfall even without the Developer's land acquisition and other Project costs that are 100 percent at-risk at this point in time. Still, the landmark development is not without its merits, and there may be potential to close the gap and achieve valuable fiscal and economic benefits for the City and County.

Based on the Project description, methodology and assumptions referenced herein, RSG and PKF have concluded the following:

- <u>$117.4 Million Feasibility Gap</u> – Compared to the Developer's pro forma analysis, RSG estimates a smaller gap. The variance in the development gap between the Developer and RSG is mainly attributable to RSG excluding land acquisition costs and early planning, design and entitlement costs from the analysis.
- <u>$133.3 Million (NPV 10 percent) Net New Fiscal Impacts to the City</u> – RSG expects that the Project will generate substantial net new fiscal impacts, including property tax, sales tax, and transient occupancy tax, among others.
- <u>Substantial New Employment</u> – RSG finds that construction is expected to generate 3,597 new temporary full-time and part-time jobs directly and the economic activity of operations will generate 1,996 new permanent full-time and part-time jobs directly. Both construction and operations will also create significant amounts of indirect and induced full-time and part-time jobs.

The Developer acknowledges that the Project as proposed faces a significant gap, and has stated they plan to "value engineer" construction (finding ways to reduce potential costs by adapting more efficient design and more cost-effective construction techniques), as well as seek

[1] This compares to a $195.6 million development gap in February 2014 as analyzed in our 2014 Report.
[2] PKF focused exclusively on the hotel component of the project. The analysis of the hotel component can be reviewed under separate cover.

assistance from the City and County. RSG doubts that without all of these considerations, the Project can be feasibly constructed at this time.

Based on the results of the analyses by RSG, explained in detail in this Report, and PKF, detailed under separate cover, the following table summarizes the Project's net new revenues, development feasibility gap, and subvention amount.

Table 1: Summary of Grand Avenue Project

NET NEW REVENUE, FEASIBILITY GAP, AND SUBVENTION AMOUNT
100 SOUTH GRAND AVENUE, LOS ANGELES

	Nominal	NPV 10%	Reference Table
Total City Net New Revenue	396,866,620	133,315,383	Table 14
50% of Net New Revenue	198,433,310	66,657,692	
Total Project Gap		117,400,000	Table 13
Hotel Gap /1		123,500,000	Table 13
TOT + Yrs 1-10 of Parking Tax Revenue	201,834,620	66,926,383	Table 14
Available Subvention Amount is the Lesser of			
50% of Net New Revenue, or		66,657,692	
Total Project Gap		117,400,000	
Available Subvention Amount		**66,657,692**	
As a % of Net New Revenues		*50%*	

1/ Refer to PKF Consulting Report

Sources: Refer to Reference Tables

BACKGROUND

Parcel Q is owned by the County, but was long ago targeted as a catalyst site for the redevelopment of Bunker Hill, which led to a series of efforts over the past 11 years to develop this and other nearby blocks in partnership with the (now former) Community Redevelopment Agency of the City of Los Angeles and the City. This redevelopment initiative led to the creation of a joint powers authority known as the Los Angeles Grand Avenue Authority ("JPA"). The JPA includes the Los Angeles County Board of Supervisor 1st District Chair, Los Angeles County Chief Administrative Officer, Los Angeles City Councilmember of the 9th District, Chief Executive Officer of the Community Redevelopment Agency of the City of Los Angeles, and a representative from the State of California.

In October 2003, the JPA released a Request for Qualifications soliciting responses from qualified parties to develop a high quality, mixed use, high-density project on several parcels in Downtown Los Angeles, including Parcel Q. Qualified parties were selected and subsequently asked to submit proposals in response to a Request for Proposals, released in January 2004. The Developer submitted a response in April 2004 and was thereafter selected and approved by the JPA as the Developer of the Project. In September 2004, an Exclusive Negotiation Agreement was executed between the JPA and the Developer.

Between March 2007 and December 2012, the parties executed an original DDA and three amendments that facilitated development of other portions of the Grand Avenue/Bunker Hill initiative. Between 2009 and 2011, construction of Grand Park (formerly designated as "Civic Park" prior to its dedication) and Broad Museum began. In 2012, development of the Parcel M Apartments (located next to the Broad Museum) began. With a $50 million land lease prepayment from the Developer to the County, Grand Park was completed in 2012; while other parts of the greater Grand Avenue/Bunker Hill redevelopment program proceeded, Parcel Q has not yet commenced redevelopment and remains to this day occupied by an obsolete parking structure.

The original schematic design for Parcel Q was created in 2006 by Gehry Partners LLP.[3] In 2007, the Developer received approval of the DDA, land use entitlements, and a 20-year transient occupancy and 10-year parking tax rebate, as well as certification of the environmental impact report. But, in 2008, after the Project achieved design development approval and tax rebate district formation, and reached 80 percent completion on construction documents, the Project was put on hold due to the global financial crisis, which had an acute impact on hotel and residential uses that were a key part of Parcel Q's redevelopment.

With the return of investment in Downtown and a rebound of both residential and hotel demand critical to the development of Parcel Q, the Developer re-engaged the JPA with plans for the property. After a year of planning and public review of different concepts, on January 14, 2014, the Los Angeles County Board of Supervisors approved a conceptual design for the two-tower high-rise project anchored by a hotel on the North Tower and the DDA amendment ("4th

[3] "Los Angeles with a Downtown? Gehry's Vision," New York Times, April 25, 2006 www.nytimes.com/2006/04/25/arts/25gran.html?_r=0

Amendment") was approved by the JPA on January 21, 2014. Based on the January 2014 development program reviewed by the JPA, the Developer submitted to RSG and PKF a pro forma analysis on February 20, 2014, which was evaluated in our June 3, 2014 Report as discussed earlier. That analysis was considered by the City Council, which approved recommendations to executing a Memorandum of Understanding (MOU) between the City and the Developer to negotiate final terms for a subvention to assist with the development of the hotel.

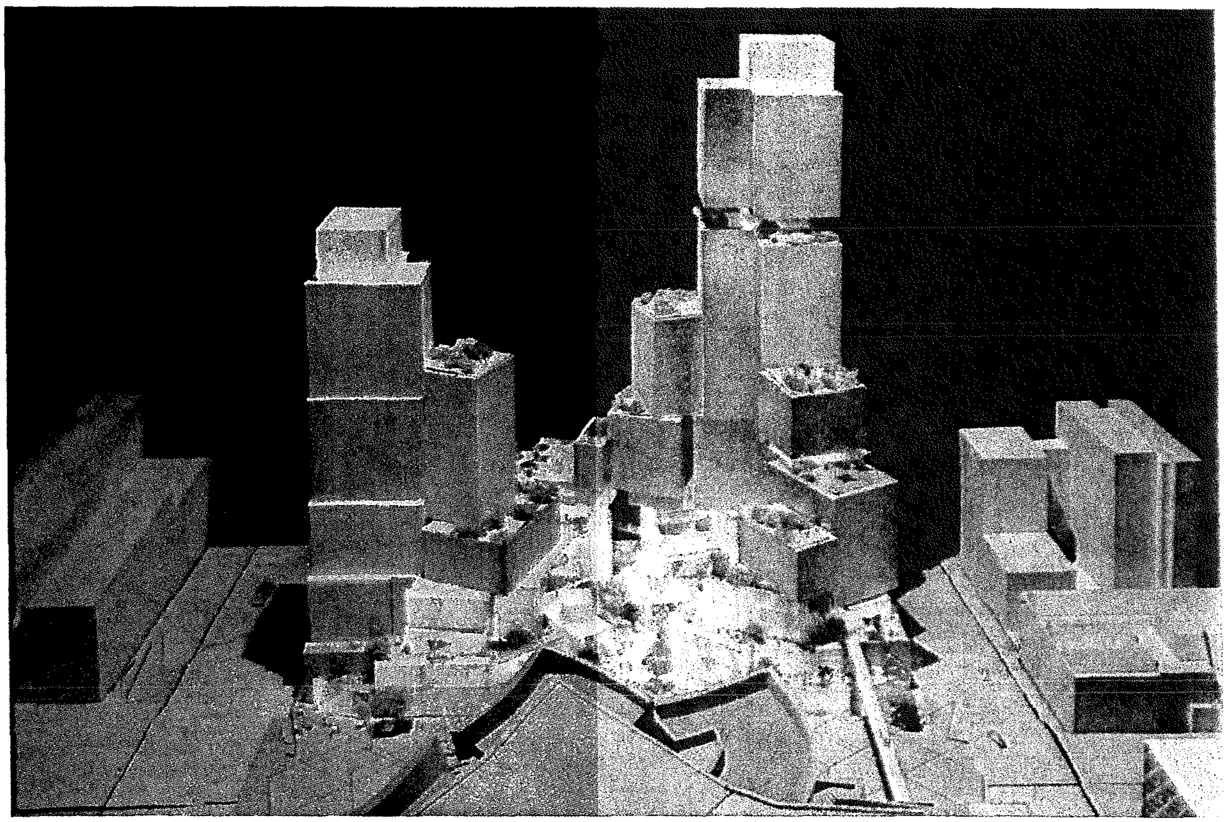

Figure 2: Project Scale Model, Looking South across Grand Avenue (January 2014)

Subsequently, the Developer severed ties with the proposed hotel operator from the 2014 proposal and modified the proposed development program for this and other reasons. These changes were considered significant, leading to a determination that a new analysis was needed and that the City Council would need to reevaluate the Project modifications, any changes to the economics of the Project and, if appropriate, terms for a revised MOU. The resulting development program that emerged was evaluated on a June 3, 2015 pro forma presented to the CLA, along with a request to proceed with a project subvention to close their estimated $175.0 million feasibility gap.

The Developer's pro forma analysis identifies the sources and uses of funds to develop the Project. The Developer's specified sources of funds include debt and equity as well as tax credits, an affordable housing loan, deferred development fees, and other public loans and grants. The uses of funds include land costs, site work, off- and on-site improvements, hard building costs, underground parking costs, other construction costs, and a myriad of soft or indirect costs. Indirect costs in the pro forma analysis include architecture and engineering, insurance, legal fees, marketing, taxes, carrying costs, and contingencies.

PROJECT DESCRIPTION

The Developer is proposing to develop an iconic, 1.6 million-square-foot mixed-use project at 100 South Grand Avenue (also know as Parcel Q) in downtown Los Angeles. As presented in the Developer's January 2014 conceptual site plan presented to the JPA, the Project, designed by Gehry Partners LLP, consists of two high-rise towers above a parking podium, directly across Grand Avenue from Walt Disney Concert Hall.

- The 16-story North Tower (nearest First Street) is proposed to include a 305-key, four-star Equinox-branded hotel, fitness center, and hotel-associated uses.
- The 38-story South Tower includes 301 mixed-income apartments, 128 for-sale condominiums, and associated residential amenities.
- Both towers are topped off with helipads, and sit atop a 1,500-space parking structure and 213,683 gross square feet of restaurant and retail space spread through the first four above-grade levels.

Table 2: Distribution of Space

DISTRIBUTION OF USES AND SQUARE FOOTAGE
100 SOUTH GRAND AVENUE, LOS ANGELES

Use	Units/Keys/ Spaces	Gross Square Feet	Net Square Feet /1
Podium			
Retail		213,683	184,683
Parking	1,500		
Podium Subtotal		**213,683**	**184,683**
North Tower			
Hotel	305	249,388	249,388
North Tower Subtotal		**249,388**	**249,388**
South Tower			
For-Sale Residential	128	215,039	160,887
For Rent Residential	301	310,152	237,259
South Tower Subtotal		**525,191**	**398,146**
PROJECT TOTAL		**988,262**	**832,217**

1/ Where Net SF is not provided, Gross SF acts as a placeholder.

Source: The Related Companies (Grand Avenue Draft Pro Forma, dated June 3, 2015)

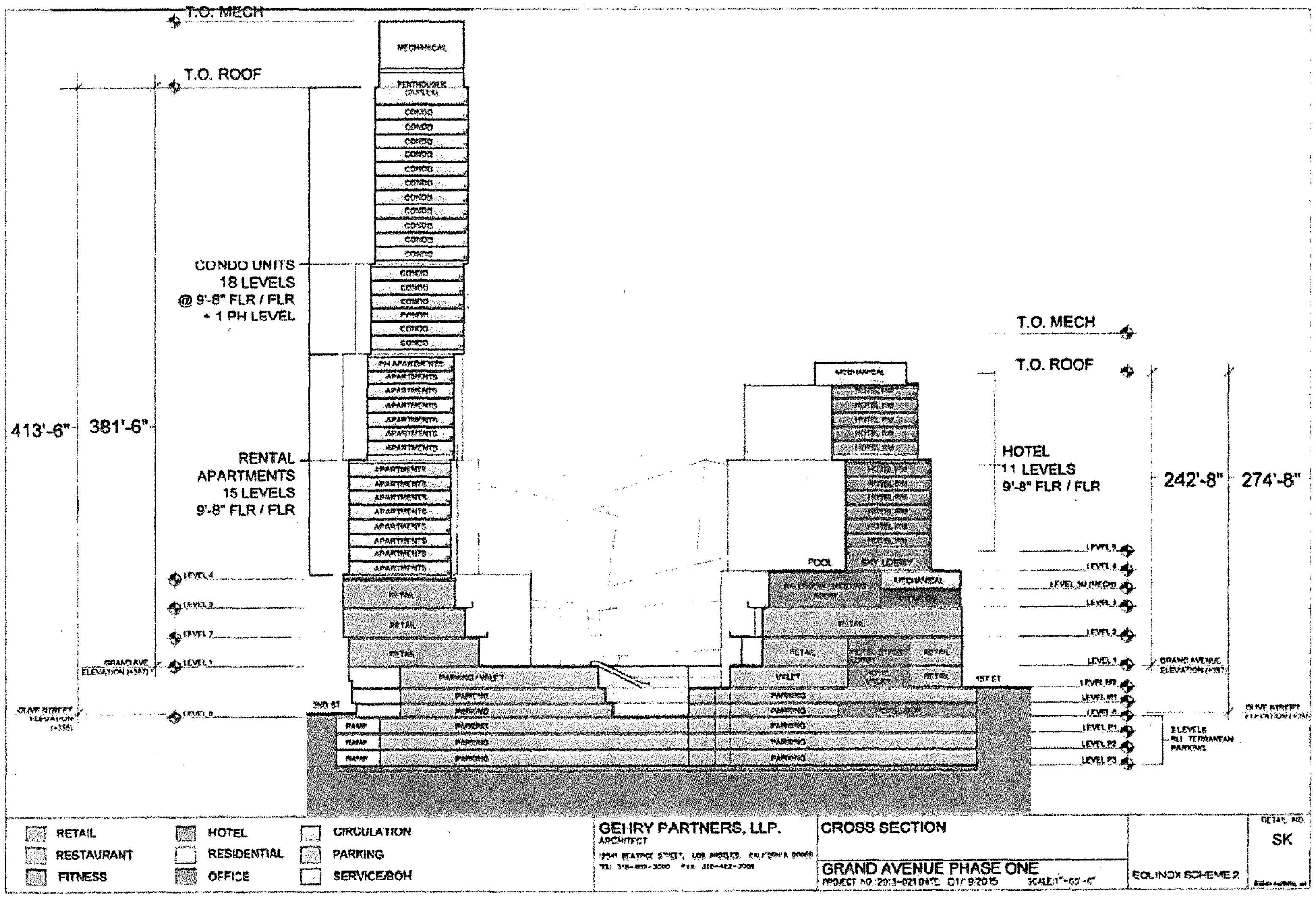

Figure 3: Cross Section, Looking North (January 2015)

LOCATION

The Project is located in the Bunker Hill neighborhood of the City and generally bound by South Grand Avenue on the northwest, West First Street on the northeast, South Olive Street on the southeast, and West Second Street on the southwest. The site, known as Parcel Q, is currently developed as a three-story steel and concrete parking structure. In order to develop the Project, the entire site would be cleared and excavated. A 32-foot difference in elevation between Olive Street and Grand Avenue provides for different experiences on different sides of the Project area. The site is surrounded by the Walt Disney Concert Hall, Stanley Mosk Los Angeles County Courthouse, Parcel W, and the Colburn School. Other surrounding types of uses include office, civic and governmental, and residential.

ADDITIONAL PROJECT DETAILS

The hotel, described in more detail in PKF's Report, connects to West First Street and generally occupies the majority of the North Tower. The hotel contains a lobby, sky lobby, restaurants, fitness center, meeting space and ballroom, spa, and 305 hotel rooms.

In April 2015, Related Companies announced that the hotel would be operated by Equinox, better known as an owner and operator of 83 high-end fitness centers globally as well as the SoulCycle and Blink fitness spinoffs. Equinox was acquired by Related in December 2005 and has continued to invest in the growth and diversification of the brand since that time, including moving into the lodging business. In addition to the Los Angeles location proposed for the Project, an Equinox-branded hotel has been proposed by the Developer at their 17.4 million square foot mixed use project known as Hudson Yards in New York, and we understand from Equinox representatives that they are seeking additional sites on the West Coast.

Still, Equinox Hotels is a new brand and entry into the hospitality industry, so RSG and PKF reviewed the management team of Equinox Hotels and ascertained that the company's hospitality leadership brings in a great deal of experience that will certainly be valuable to the new venture. This includes David Gutstadt, Director of Hospitality, with over 17 years of experience in real estate and hospitality and Rudy Tauscher, Director of Operations, with significant leadership in several prominent first-class hotels throughout the world.

At this point, retail tenants are not yet committed to the Project, which would not be unusual for a development that may not be open for nearly four years from now. As such, RSG requested and reviewed proposed tenant concepts for the Project based on the Developer's branding strategy for the overall Project and the retail space in particular. The retail space will likely be occupied by lifestyle, apparel, electronics, and other soft goods specialty retail uses. According to the Developer, the mix of retailers that is expected to occupy the Project is anticipated to include lifestyle retailers not present in downtown Los Angeles. (Some of these specific tenant targets have been shared with RSG confidentially to protect the ongoing recruiting efforts by the Developer while allowing RSG to project potential benefits of the Project.) In addition, a food and beverage program is anticipated to include multiple offerings featuring celebrity chefs.

The Project contains parking across five levels of underground and mezzanine parking. The primary entrances to the parking levels are from South Olive Street for retail, office, and hotel self-parking, from West First Street for hotel valet parking, and from South Grand Avenue for residential parking.

ANTICIPATED DEVELOPMENT CALENDAR

At this point, the Developer is targeting a 38-month construction process, consisting of the following phasing:

7 Months	Demolition, excavation, shoring, below grade structure up to Grand Avenue street level
7 Months	Vertical construction from Grand Avenue to Level 7
15 Months	Vertical construction from Level 7 to top of building
9 Months	Building interiors and finishes

Based on consultations with the Developer, RSG assumed that construction would begin by November 2017 for the purpose of this analysis and Report. Should the Project commence construction a few months later, the impacts described in this report could be deferred and/or altered from the forecast presented in this Report.

DEVELOPMENT FEASIBILITY ANALYSIS

The development feasibility analysis considers the costs of construction compared to valuation for each use separately. RSG has prepared the analysis as it pertains to all uses except the hotel, which was performed by PKF (under separate cover).

RSG and PKF have concluded that the Project will face a deficit of approximately **$117.4 million** because development costs exceed the conventional valuation metrics by this amount. The Project, as proposed, is not presently feasible without financial assistance. In 2015 dollars, the Project costs are approximately **$828.4 million**, inclusive of on- and off-site improvements and indirect costs. By comparison, the total value of the Project is approximately **$711.0 million**. The feasibility gap is equivalent to about 14 percent of RSG's estimated development costs.

A summary of the Project development costs, supportable investment, and Project feasibility gap is presented in the following table. The sections that follow detail the development costs and supportable investment.

Table 3: Development Gap

DEVELOPMENT COST, VALUATION AND GAP ANALYSIS
100 SOUTH GRAND AVENUE, LOS ANGELES

	Final Development Costs /1	Valuation /2	Gap /3
Multifamily	$ 206,700,000	$ 146,300,000	$ (60,400,000)
Retail	217,300,000	245,500,000	28,200,000
Condo	141,200,000	179,500,000	38,300,000
Hotel /4	263,200,000	139,700,000	(123,500,000)
Total	**$ 828,400,000**	**$ 711,000,000**	**$ (117,400,000)**

1/ Final Development Costs are derived from the Development Costs table.

2/ The method of valuing each component of the project varied by land use. Details can be found in the cash flow analysis for each component.

3/ The Gap is derived by subtracting the Final Development Costs from the Valuation.

4/ Hotel costs were based on PKF Consulting USA "Analysis of Potential Market Demand for the Proposed Grand Avenue Hotel to be Located in Downtown Los Angeles, California" dated July 2015.

DEVELOPMENT COSTS

APPROACH

The uses of funds includes land costs, site work, off- and on-site improvements, hard building costs, underground parking costs, other construction costs, and a myriad of soft or indirect costs. Indirect costs in the pro forma analysis include architecture and engineering, insurance, legal fees, marketing, taxes, carrying costs, and contingencies. The Developer's specified sources of funds include debt and equity as well as tax credits, an affordable housing loan, deferred development fees, and other public loans and grants.

RSG reviewed relevant reports and supporting exhibits provided by the Developer and made numerous inquiries for additional information from the Developer to aid in understanding the Project and the Developer's assumptions. RSG then prepared an independent estimate of development costs, which included a combination of computing construction costs based on RSG's experience and credible industry standards and refinement of the information received from the Developer. RSG reviewed a draft of this Report to the City and Developer for additional feedback.

DATA SOURCES

While RSG referenced the RS Means development cost guides, RSG primarily used Marshall Valuation Service ("MVS") to develop replacement costs of the Project improvements. MVS is a monthly publication by Marshall and Swift/Boeckh, LLC and is regarded as the complete, authoritative guide to construction replacement cost data. MVS is employed by appraisers, assessors, underwriters, insurance companies, and other entities in need of accurate estimates of building values. MVS collects and consolidates updates to their cost guides monthly or quarterly based on input from current subscribers, phone surveys, field surveys, product catalogs, trade associations and publications, government statistics and reports, lending institutions, as well as building industry and trade representatives. MVS cost estimates are the industry standard because the handbook contains over 300 different building occupancies, often with several varying construction classes and qualities for each occupancy, and over 30,000 component costs.

The replacement cost of a building includes the total cost of construction required to replace the subject building with a substitute of like or equal utility using current standards of materials and design. The costs included in MVS include the costs of labor, materials, supervision, contractor's profits and overhead, architects plans and specifications, sales taxes, and insurance.

MVS breaks down costs for more construction types than any other cost guide. Then, it further refines the costs based on building class, quality, and materials to yield an estimate of costs per square foot referred to as the calculator method. The calculator method includes the final costs to the owner, including architect and engineering fees, plans, plan check, building permits, and surveying. Also included are interest on construction loans, all material and labor costs, local state and federal taxes, normal site preparation including finish, grading, and excavation for foundation and backfill, utilities from the structure to the lot line, and classes, occupancy types, and qualities of buildings. Refinements are made to the square foot costs based on the type of fire suppression system and the total square footage and perimeter of the building. Finally, current cost multipliers and local cost multipliers adjust the published figures to the construction costs for the current month and location (in this case, the County of Los Angeles).

The calculator costs specifically exclude costs of assembling and buying land, pilings and hillside foundations, costs of land planning, preliminary concept and layout, financing costs, extensive yard improvements, off-site costs, tenant improvements, furnishings and fixtures, marketing costs and general contingency. For these cost categories, RSG considered the Developer's input or developed cost estimates based on the best information available.

In some cases, a more detailed compilation of costs became necessary, in which case RSG employed a second technique known as the segregated cost method, wherein the costs of improvements are broken down into the component parts. The segregated cost method begins with the cost per square foot of major building components, such as foundation, frame, wall, floor, etc. This method can be utilized essentially to build up a structure from the ground up, if all details are known, selecting the quantities and qualities that are specific to the Project. It should be noted that the segregated cost method excludes the architect fees in addition to the other exclusions noted above under the calculator method.

The segregated cost method is largely infeasible due to the extensive time and energy required to account for the quantity, quality, and type of building components that make up a project of this scale. However, the segregated cost method is particularly useful in adding on project components that are excluded from the calculator method costs. For example, the Project includes eight escalators, which are not normally included in the calculator methodology. By working with the Developer, RSG determined the size and height of the escalators and effectively added the cost in using the segregated cost method.

RSG has used MVS to estimate building and construction costs for over 25 years. RSG has developed a methodology that utilizes MVS comprehensively and accurately, based on years of collaboration with MVS technicians.

ADDITIONAL ESTIMATES AND METHODOLOGY

RSG's consultant team includes a leading Principal with over 25 years of experience analyzing development project costs, revenues and impacts, a licensed general contractor with an active general building license since 1988, and a project analyst trained and practiced in the areas of project estimating, real estate pro formas, financial analysis and economic modeling. RSG's team independently verified the assumptions presented by the Developer and made adjustments when market research could not validate the assumptions provided. Consequently, some variations occur between RSG's conclusions and the estimates provided by the Developer, as detailed in this Report.

As stated earlier, RSG had to employ additional refinement to the Project costs for items that are either excluded entirely or not adequately tailored to the Project by MVS. Project costs that fall into these categories include:

- Furnishings, fixtures, and equipment;
- Feasibility and pre-development costs associated with the current Project;
- Financing and carry costs associated with the current Project;
- Additional overhead premiums;
- City fees and municipal contributions/exactions on the Project;
- Tenant improvement allowances and marketing costs; and
- Contingencies on the direct and indirect costs of the Project.

RSG estimated these additional costs based on the Developer's input, experience with similar projects, consultation with the development team, interviews of industry professionals, and analysis of trade and investment surveys.

INFORMATION REFERENCED

In addition to our own independent analysis and research, RSG developed cost estimates for the Project based on information gleaned from the following resources:

- Responses to RSG's Requests for Information, provided by the Developer between June and November 2015;
- Teleconference review of the Project as currently proposed with The Related Companies on June 4, 2015 and various phone calls and email coordination;
- Review of the proposed site plan, including building sizes and perimeters, dated January 19, 2015;
- Review of the Developer's multifamily market positioning study, prepared by RCLCo in 2015;
- Review of the Developer's pro forma analysis, dated June 3, 2015;
- Review of pertinent legal documents, including:
    - the DDA and all four amendments;
    - the December 2010 Funding Agreement between the City and Developer;
    - the June 2008 Implementation Agreement between the City and Developer; and
    - the July 2005 Project Implementation Agreement Plan.

COST ASSUMPTIONS

RSG computed costs for each component of the Project, detailed in the following sections, including the following components:

- Subterranean parking levels;
- Multifamily shell and core;
- Retail shell, core, and tenant improvements;
- Condo shell and core; and
- Hotel shell and core.

Based on the hard construction costs associated with each component of the Project, RSG estimated and distributed the costs associated with the interior circulation, underground and mezzanine parking, off-site improvements, LEED Silver certification (required by the DDA), and direct contingencies. The costs presented in the following sections are inclusive of these factors.

With the exception of several indirect cost categories, RSG acknowledges that the Developer's indirect costs are realistic and conservative estimates based on the direct construction and other costs.

SUBTERRANEAN PARKING LEVELS

RSG utilized MVS cost estimates for Class A Underground Parking to estimate the costs associated with the subterranean parking levels. Per MVS, underground parking garages are independent structures built below grade with a load bearing roof. Basement parking is beneath an above-grade structure. Class A Underground Parking includes unfinished concrete, waterproofed walls, and load bearing roof. The load bearing roof is intended to support the above-grade construction.

The hard cost of the subterranean parking was allocated by RSG and the Developer in proportion to the allocation of parking requirements and therefore included in each of the components listed below. RSG estimates the hard cost of the parking development alone is approximately $86,311,698. Parking hard costs include vertical transportation (elevators, escalators, and stairs); storage, truck loading/unloading dock, and mechanical were estimated separately and included in the costs associated with each component.

MULTIFAMILY SHELL AND CORE

For the purpose of this analysis, RSG utilized MVS cost estimates for Luxury Apartments to estimate the construction costs associated with the multifamily component. According to MVS, Luxury Apartments are often high-end and owner-occupied dwelling units, however, some rental apartments can be built to these specifications. RSG utilized the high-rise luxury apartments' shell and core build out, adding costs for sprinklers and elevators.

The shell build out is expected to have the best metal or stone, brick or block back up and solar glass exterior walls, plaster, high quality veneers, marble and carpet, and top quality lobby finishes within the core, and a luminous lobby ceiling with excellent lighting and fixtures. The interior finish is estimated with fine detail, hardwoods, ceramic, custom carpet and built-ins. Fine fixtures and more than one bath per bedroom fill out the units.

The multifamily apartments have some exterior terraces, as well as one level featuring larger penthouse units on the 18th floor of the South Tower. Load bearing roofing has been included above some multifamily apartment square footage to accommodate the added weight of exterior terraces.

Table 4: Multifamily Cost Assumptions

SQUARE FEET, PERIMETER, STORIES, AND COSTS 100 SOUTH GRAND AVENUE, LOS ANGELES	
Building Square Feet	244,382
Load Bearing Roof Square Feet	21,634
Stories	15
Adjusted Cost per Square Foot	$629
Adjusted Total Cost	$153,749,967

Sources: The Related Companies, RSG, Marshall Valuation Service

The multifamily direct costs are estimated at $153,749,967, inclusive of applicable exterior shell costs (South Tower), interior build out, residential lobby and amenities, appliances, load bearing roofs, terrace hardscape and soft-scape, apartment pool and pool deck, parking, common areas, circulation, off-site improvements and a direct contingency.

RETAIL SHELL, CORE, AND TENANT IMPROVEMENTS

To evaluate the costs of the retail shell in a manner that most closely matches the actual type and quality of construction, RSG utilized the MVS development costs for the Luxury Apartments for shell construction, while employing highest quality retail shopping center MVS type for build out for interior improvements.

RSG recognizes that the high concentration of food and beverage uses within the retail component may skew the costs. Because a high portion of the retail component is dedicated to restaurant uses and restaurant uses have significantly higher improvement costs per square foot, RSG evaluated each interior improvement space separately, according to the following table.

Table 5: Retail Cost Assumptions

SQUARE FEET, PERIMETER, STORIES, AND COSTS 100 SOUTH GRAND AVENUE, LOS ANGELES	
Building Square Feet	196,316
Stories	*Varies*
Adjusted Cost per Square Foot	$871
Adjusted Total Cost	$171,006,671

Sources: The Related Companies, RSG, Marshall Valuation Service

The estimated direct cost of the retail component is $171,006,671, including parking, off-site improvements, and a direct contingency. The costs associated with the retail component of the Project are relatively high compared to typical retail developments; largely because of the architectural and construction quality of the shell. RSG believes that this level of construction quality may be supportable given the type of retailers sought by the Developer to achieve targeted rents and occupancy.

CONDO SHELL AND CORE

Located starting on the 19th floor above the multifamily apartments, the Project includes 19 stories of condominium units and residential amenities, including two stories of penthouse units. In accordance with the other components of the Project, the shell for the South Tower is entirely valued as luxury apartment shell construction. RSG anticipates that the penthouse unit construction will be at slightly higher quality than the remainder of the condominium units.

The costs associated with the construction of the condominiums are presented in the following table.

Table 6: Condominium Cost Assumptions

SQUARE FEET, PERIMETER, STORIES, AND COSTS 100 SOUTH GRAND AVENUE, LOS ANGELES	
Building Square Feet	194,183
Stories	19
Adjusted Cost per Square Foot	$556
Adjusted Total Cost	$107,919,978

Sources: The Related Companies, RSG, Marshall Valuation Service

The cost per square foot associated with the condominium construction is inclusive of off-site improvements, parking, LEED Silver certification, direct contingency, shell and core build out, and condominium amenities. RSG estimates the direct cost to develop the condominiums is $107,919,978.

HOTEL SHELL AND CORE

As previously discussed, PKF analyzed the development costs associated with the hotel component of the Project. According to PKF, the Hotel will include hotel entrance, plaza, lobby bar, retail, restaurants, hotel kitchen, sky lobby, terraces, meeting space, pool, pool bar, pool deck, cabanas, and spa on the first four floors. Floors five and above will contain the hotel guestrooms. PKF concurred with the Developer's estimated direct cost of the hotel of $185,858,545, inclusive of the hotel component's share of parking, off-site improvements and the direct contingency.

For additional detail, please refer to the PKF Report entitled "Analysis of Potential Market Demand for the Proposed Grand Avenue Hotel to be Located in Downtown Los Angeles, California" and dated July 2015.

OFF-SITE IMPROVEMENTS

Pursuant to the Amended DDA, the Developer must provide certain off-site improvements. The off-site improvements are described as streetscape improvements, including landscaping, streetscape amenities, sidewalks, curbs, gutters, street trees, street lighting, other improvements to the street, and other off-site publicly owned improvements. The Developer has estimated that the cost of off-site improvements will total approximately $6.5 million, which were allocated among the four project component hard cost figures above.

LEED CONSTRUCTION

Included in the direct hard costs, RSG incorporated a 5 percent LEED Silver certification inflation factor. LEED stands for Leadership in Energy and Environmental Design and was established by the United States Green Building Council as the most comprehensive green construction rating system. The LEED system is now recognized as a nationwide benchmark for green design. LEED Silver is the second among four tiers in the LEED certification system. According to MVS, the additional cost of building green is estimated at between 0 and 7 percent for commercial buildings and 3 to 20 percent for residential buildings.

It is RSG's belief that many of the construction types, qualities, and classes used in this analysis are already constructed at a very high standard, which, in the current construction climate, includes environmentally efficient materials. With this, RSG utilized the LEED inflation factor of 5 percent to estimate the additional costs associated with the LEED Silver certification.

ADDITIONAL COSTS OF CONSTRUCTION

In addition to hard construction costs, off-site improvements, and LEED-certified construction costs, RSG estimates the indirect costs of the Project may total approximately $209,857,551. Indirect costs include specialty consultants, insurance, legal, accounting, title, permitting, fees, taxes, marketing commissions, operating deficit, overhead reimbursements, the Developer's fee, financing costs, debt and carry costs, and an indirect contingency. For the most part, RSG finds that the Developer's indirect costs are reasonable for a project of this scale. Several of these categories were included in the cost estimates and are described in more detail, based on input from the Developer:

- Specialty consultants include persons or companies specializing in vertical transportation, curtain walls, loading docks, window washing, landscaping, and irrigation, among other aspects.

- Permits, impact fees, and surveys include estimates based on the Developer's experience in the market.

DEVELOPMENT COST SUMMARY

The total applicable development costs associated with the Project, excluding land costs and early planning, design, and entitlements, are estimated at **$828.4 million**, approximately 16.6 percent lower than the Developer's estimate of $993.7 million (which includes land and predevelopment costs excluded by RSG).

Total development costs are outlined in the table that follows.

Table 7: Development Costs

DEVELOPMENT COST
100 SOUTH GRAND AVENUE, LOS ANGELES

	Multifamily	Retail	Condo	Hotel	Total
	RSG	*RSG*	*RSG*	*PKF*	*RSG/PKF*
COST ESTIMATES /1					
Vertical Construction	$137,627,000	$123,034,000	$ 95,539,000	$ 169,476,168	$ 525,676,168
Parking	14,926,000	45,872,000	11,583,000	13,930,698	86,311,698
OTHER COSTS /2					
Off Site	1,196,967	2,100,671	797,978	2,451,679	6,547,295
Subtotal	153,749,967	171,006,671	107,919,978	185,858,545	618,535,161
Land Acquisition	-	-	-	-	-
RSG ADJUSTMENTS					
Special Consultants	8,124,698	3,256,387	5,416,465	22,464,453	39,262,003
Legal/Accounting	1,275,000	2,620,000	850,000	6,017,506	10,762,506
Title Inurance/Real Estate Taxes	2,195,932	2,560,101	831,108	7,671,524	13,258,665
Marketing/Commissions	1,693,714	9,479,048	5,443,031	-	16,615,793
Operating Deficit	1,440,774	1,975,000	-	4,550,000	7,965,774
Overhead Reimb	5,054,000	5,727,000	3,614,000	8,340,606	22,735,606
Developer's Fee	5,054,000	5,727,000	3,614,000	8,340,606	22,735,606
Financing Costs	23,185,463	3,846,605	7,805,846	4,729,913	39,567,827
Debt Interest Carry	-	6,188,265	-	6,608,699	12,796,964
Extension Fees & Incentive Rent Payments	2,550,859	1,729,768	1,700,573	2,018,801	8,000,001
Other Payments	-	1,081,105	2,657,145	1,261,750	5,000,000
Indirect Contingency	2,401,000	2,069,000	1,379,000	5,307,806	11,156,806
Subtotal	52,975,440	46,259,279	33,311,168	77,311,664	209,857,551
Total Costs	$206,725,407	$217,265,950	$141,231,146	$ 263,170,209	$ 828,392,712

1/ Includes costs estimated using Marshall Valuation Service. MVS cost estimates, as outlined in this report, includes normal architectural and engineering fees, and plan check, building permits, and surveying, among other costs.
2/ Other Costs includes off site costs as reported by the Developer.
Sources: The Related Companies, Marshall Valuation Service, RSG Inc, and PKF Consulting USA

VARIANCES WITH DEVELOPER'S COST ESTIMATES

The Developer has been pursuing development of the site for several years. Because of the duration of the Project, the developer has incurred many expenses that, for the purpose of this analysis, have not been considered direct costs of the development of the Project because they are 100 percent at risk (such as the $44.7 million expended for Grand Park, which provided the

Developer a long-term ground lease of the site only if development proceeds, as well as $49.9 million in sunk costs for past (and abandoned) development programs). Including these costs would only exaggerate the gap on the Project from the City's perspective, so they have been excluded from this Report. However, the Developer recognizes all costs for development of Parcel Q, so their gap analysis would naturally be greater. When these land acquisition and early planning, design, and entitlement costs are included, our forecast of the Project costs would increase to approximately $925 million.

Aside from these exclusions, RSG also reached a different conclusion in some cases on the costs for each component. In aggregate, RSG estimates the balance of the Developers budget may be overstated by approximately $70.2 million (8 percent). After adjusting for the abovementioned exclusions, the Developer estimates the total development cost to be $898.6 million, compared to RSG's cost of $828.4 million. In reviewing our separate findings, RSG and the Developer acknowledge that both estimates are preliminary at this time and that reconciliation of the final development expenses as customarily provided in the City's subvention agreement would provide the final figures of actual Project costs.

A summary of the estimated development costs for the Project is presented in the table below.

Table 8: Comparison of Development Costs

RETAIL, RESIDENTIAL, AND HOTEL
100 SOUTH GRAND AVENUE, LOS ANGELES

	Multifamily	Retail	Condo	Hotel	Total
	RSG	*RSG*	*RSG*	*PKF*	*RSG/PKF*
Related Project Costs /1	$ 239,239,936	$ 276,721,259	$ 181,370,076	$ 296,320,209	**$ 993,651,480**
Less Land Acquisition /2	(10,945,600)	(9,330,000)	(6,545,600)	(18,300,000)	**(45,121,200)**
Less Early Planning, Design & Entitlements /3	(15,000,000)	(10,050,000)	(10,000,000)	(14,850,000)	**(49,900,000)**
Revised Related Project Costs /4	213,294,336	257,341,259	164,824,476	263,170,209	**898,630,280**
RSG/PKF Project Costs					
Direct Costs	153,749,967	171,006,671	107,919,978	185,858,545	618,535,161
Indirect Costs	52,975,440	46,259,279	33,311,168	77,311,664	209,857,551
INDEPENDENT TOTAL COSTS	**206,725,407**	**217,265,950**	**141,231,146**	**263,170,209**	**828,392,712**
Variance /5	(6,568,929)	(40,075,309)	(23,593,330)	-	**(70,237,568)**
FINAL DEVELOPMENT COSTS /6	**$ 206,725,407**	**$ 217,265,950**	**$ 141,231,146**	**$ 263,170,209**	**$ 828,392,712**

1/ Related Project Costs were derived from the Grand Avenue - Parcel Q Draft Pro forma, provided by Related and dated 6/3/2015.

2/ Land Acquisition Costs includes Taxes, Title, and Land Acquisition, as reported by Related as of 6/3/2015.

3/ Per Related, Early Planning, Design and Entitlements includes early predevelopment costs associated with planning and entitlements, and for architecture and engineering or earlier iterations of the Parcel Q development prior to 2013.

4/ Revised Related Project Costs is the result of subtracting Land Acquisition and Early Planning, Design, & Entitlements from Related Project Costs.

5/ Variance between Related Development Costs and RSG/PKF Development Cost estimates

6/ Final Development Costs are derived by subtracting the Variance from PKF/RSG's Development Cost from the Revised Related Project Costs

Sources: The Related Companies, RSG Inc, and PKF Consulting USA

SUPPORTABLE INVESTMENT

The supportable investment for the Project is the projected value of the Project based on certain operating and sales assumptions. There are a variety of metrics RSG typically considers when performing these analyses (including unleveraged internal rate of return and direct capitalization), but for purposes of the gap analysis, RSG used the following approaches:

- Income Property (Retail, Multifamily and Hotel): RSG employed the Discounted Cash Flow Method, which uses a combination of the net present value of the net operating income over a holding period, typically at least 10 years, and the reversion value of the property, net of sales costs and expressed in current dollars. The majority of the value is derived from the discounting of the net operating income, which is how this method earns its name. Although computed similarly to the direct capitalization method, the reversion value is determined by dividing the net operating income in the year following the holding period by a more conservative capitalization rate as determined by the market. Sales costs are typically deducted from this value, which is then discounted at a discount rate. This method is commonly used in hotel valuation, as well as projects with more volatile cash flows.

- Condominiums: RSG used a direct method of estimating the net sales proceeds based on assumed sales prices, inflation, and sales costs.

Detailed cash flows are provided in this Report for reference. Ultimately, RSG and PKF combined to estimate the value of the Project to be approximately **$711.0 million**.

ASSUMPTIONS

Key to the computation of valuation of any income-generating real estate are the assumptions used to apply to the property's revenue stream, consisting of two types of capitalization rates (going-in and residual) and the overall return on investment. These factors are contingent on the expectations of the real estate investment market, and account for risk, location, and use among other considerations.

INCOME-GENERATING PROJECT COMPONENTS

In order to evaluate the feasibility of the income-generating components of the Project, RSG looked at the net operating income, reversion value, and total return on cost. Many assumptions come into play when projecting cash flow and developing a valuation forecast, including construction costs derived from the feasibility study, absorption rates, gross income projections, operating expenses, capitalization rates, and inflation rates.

RSG's revenue and valuation forecast for the multifamily and retail components are presented in the tables at the end of this section.

The assumptions are described below:

- Construction Schedule – RSG utilized a 38-month construction period, an assumption that was also incorporated in the Developer's June pro forma. Construction costs are inflated by 3 percent per year over the construction period.

- Rental Rates – RSG combined industry research, experience and expertise with the Developer's assumptions and expectations. RSG assumed that the gross rental rate would be $4.80 per square foot for market rate multifamily, $1.10 per square foot for affordable multifamily, and $5.83 per square foot (triple net) for retail. Multifamily rents are inflated at a rate of 3.5 percent per year. Retail rents are assumed to adjust every five years assuming an annual inflation rate of 2.5 percent.

- Occupancy Rates – RSG utilized generally accepted industry standards and reviewed the Developer's pro forma for projected occupancy rates. The assumed occupancy rates at stabilization are 95 percent for market rate multifamily and retail uses. Though a relatively minor impact on the Project operating income, RSG assumed a 97 percent occupancy rate for the affordable multifamily due to expectation that this Project will have an extensive waiting list as is common in affordable projects.

- Absorption Rates – RSG estimated the absorption rates based on experience with similar projects and feedback from the Developer. Absorption rates for each use are included in the cash flow projections.

- Other Income and Common Area Maintenance – Other income sources were identified via coordination with the Developer and review of the Developer pro forma. Other income sources include parking revenues, vending and event revenues, advertising, and valet parking. RSG utilized a $0.50 per square foot common area maintenance recovered cost (income) for the retail component.

- Operating Expenses – The operating expenses included property taxes and operations. Property taxes are based on the current property tax rate for the Project multiplied by the capitalized value upon completion. Other operating expenses are estimated based on surveys of existing high-rise projects in Los Angeles as follows: $8,000 per unit for multifamily and 5 percent of gross rent for retail. Property taxes are inflated at a rate of 2 percent per year and other operating expenses are inflated at a rate of 3 percent per year.

- Capitalization Rates – For both the determination of going-in (initial) and residual (at reversion) capitalization rates, RSG collected data from several investor surveys compiled by independent third parties of the Los Angeles real estate market, including CBRE, RERC (Real Estate Research Corporation), and IRR Viewpoint. As the Project includes a range of uses and very unique construction qualities, the Project does not fit perfectly into any categories tracked by the above-mentioned data sources. RSG analyzed representative rates for each product type, and compared rates from each investor survey data source to estimate the following assumed capitalization rates:

Table 9: Cash Flow and Return on Cost Assumptions

CAPITALIZATION RATE ASSUMPTIONS
100 SOUTH GRAND AVENUE, LOS ANGELES

	Multifamily	Retail
Unleveraged IRR	6.50%	8.50%
Going-In Cap	4.50%	6.25%
Spread on IRR (bp)	*200*	*225*
Exit Cap	5.0%	7.0%
Spread to Exit Cap (bp)	*50*	*75*
Selling Expense	7.0%	7.0%

Sources: CBRE Cap Rate Survey, Real Estate Research Corporation, and IRR Viewpoint

CONDOMINIUM COMPONENT

Valuation of the condominium component was based on the sales pace, sales prices per square foot, and inflators, less sales expenses. Details are summarized below:

- Pace of Sales – Based on discussions with the Developer, actual performance of comparable for-sale residential projects, and typical new home sale presale activity, RSG assumed that 25 percent of the units will be presold and occupied immediately after completion, with the balance of the condominiums sold within the first year.

- Average Sales Price Per Square Foot – RSG estimates that the average sales prices of comparable, high-rise units suggest a 2015 pricing averaging $1,200 per square foot. This figure was inflated annually by 3.5 percent per year.

- Sales Expenses – While some marketing costs are included in the development budget itself, RSG estimated that the cost of sales for each unit is approximately 7 percent of gross sales.

Table 10: Multifamily Projected Cash Flow and Return on Cost

MULTIFAMILY COMPONENT
100 SOUTH GRAND AVENUE, LOS ANGELES

Forecast Year	Present Value	- 1 -	- 2 -	- 3 -	- 4 -	- 5 -	- 6 -	- 7 -	- 8 -	- 9 -	- 10 -	- 11 -	- 12 -	- 13 -	- 14 -
Operating Year		- -	- -	- -	- -	- 1 -	- 2 -	- 3 -	- 4 -	- 5 -	- 6 -	- 7 -	- 8 -	- 9 -	- 10 -
Calendar Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Land Investment	-	-	-												
Construction Cost	206,700,000	10,878,947	65,273,684	65,273,684	65,273,684	-	-	-	-	-	-	-	-	-	-
Construction % By Year /1		5.3%	31.6%	31.6%	31.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.00%
Inflation @ 3.0% /2	18,546,591	326,368	3,975,167	6,052,633	8,192,422	-	-	-	-	-	-	-	-	-	-
Inflated Construction Cost	225,246,591	11,205,316	69,248,852	71,326,317	73,466,107	-	-	-	-	-	-	-	-	-	-
Total Investment	225,246,591	11,205,316	69,248,852	71,326,317	73,466,107	-	-	-	-	-	-	-	-	-	-
Gross Income															
Gross Rental Income (Market Rate)															
Leaseable SF	176,634														
Occupancy Rate	90.0% / 95.0%	0.0%	0.0%	0.0%	0.0%	90.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%
Occupied SF	167,802	-	-	-	-	158,971	167,802	167,802	167,802	167,802	167,802	167,802	167,802	167,802	167,802
Rent Rate/sf	4.80	4.97	5.14	5.32	5.51	5.70	5.90	6.11	6.32	6.54	6.77	7.01	7.25	7.51	7.77
Average Gross Rent	9,665,423	-	-	-	-	10,875,307	11,881,273	12,297,118	12,727,517	13,172,980	13,634,034	14,111,226	14,605,118	15,116,298	15,645,368
Gross Rental Income (BMR)															
Leaseable SF	60,594														
Occupancy Rate	90.0% / 97.0%	0.0%	0.0%	0.0%	0.0%	90.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%
Occupied SF	58,776	-	-	-	-	54,534	58,776	58,776	58,776	58,776	58,776	58,776	58,776	58,776	58,776
Rent Rate/sf	1.10	1.12	1.13	1.15	1.17	1.19	1.20	1.22	1.24	1.26	1.28	1.30	1.32	1.33	1.35
Average Gross Rent	775,843	-	-	-	-	775,488	848,340	861,065	873,981	887,091	900,397	913,903	927,612	941,526	955,649
Other Revenue /3															
Parking Revenues	549,480	-	-	-	-	573,298	623,302	642,002	661,262	681,099	701,532	722,578	744,256	766,583	789,581
Valet, Misc	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Revenue	549,480	-	-	-	-	573,298	623,302	642,002	661,262	681,099	701,532	722,578	744,256	766,583	789,581
Effective Gross Income	**10,990,746**	**-**	**-**	**-**	**-**	**12,224,093**	**13,352,916**	**13,800,185**	**14,262,760**	**14,741,171**	**15,235,964**	**15,747,707**	**16,276,986**	**16,824,407**	**17,390,598**
Expenses															
Property Taxes @ $6,000/unit /4	1,806,000	-	-	-	-	1,998,624	2,038,596.	2,079,368	2,120,955	2,163,374	2,206,642	2,260,007	2,295,790	2,341,706	2,388,540
Op Ex @ $8,000/unit ($8.06/sf)	2,500,000	-	-	-	-	2,898,185	2,985,131	3,074,685	3,166,925	3,261,933	3,359,791	3,460,585	3,564,402	3,671,334	3,781,474
Total Expenses	**4,306,000**		**-**	**-**	**-**	**4,896,809**	**5,023,727**	**5,154,053**	**5,287,881**	**5,425,307**	**5,566,433**	**5,720,592**	**5,860,193**	**6,013,040**	**6,170,015**
NET OPERATING INCOME	**6,684,746**	**-**	**-**	**-**	**-**	**7,327,284**	**8,329,189**	**8,646,132**	**8,974,879**	**9,315,863**	**9,669,531**	**10,027,116**	**10,416,794**	**10,811,367**	**11,220,583**
Feasibility Analyses															
Yr 10 Reversion @ 5.00% Cap & 2.0% Sales Cost															228,200,000
NOI + Net Reversion		-	-	-	-	7,327,284	8,329,189	8,646,132	8,974,879	9,315,863	9,669,531	10,027,116	10,416,794	10,811,367	239,420,583
DCF @ 6.50% NPV	**$146,300,000**														
Surplus/ (Gap)	**($60,400,000)**														
Cost + NOI+ Net Reversion		(11,205,316)	(69,248,852)	(71,326,317)	(73,466,107)	7,327,284	8,329,189	8,646,132	8,974,879	9,315,863	9,669,531	10,027,116	10,416,794	10,811,367	239,420,583

1/ RSG assumption, subject to receipt and review of development calendar from Related Cos.
2/ Based on data from ENR (Year Ending July 2015) and Turner Construction Company (Year Ending 2nd Quarter 2015)
3/ Estimated by RSG, subject to receipt and review of additional information from Related Cos.
4/ Assumes 1.219% property tax rate (2014-15 rate).

RSG

Table 11: Retail Projected Cash Flow and Return on Cost

RETAIL COMPONENT
100 SOUTH GRAND AVENUE, LOS ANGELES

Forecast Year	Present Value	- 1 -	- 2 -	- 3 -	- 4 -	- 5 -	- 6 -	- 7 -	- 8 -	- 9 -	- 10 -	- 11 -	- 12 -	- 13 -	- 14 -
Operating Year		- -	- -	- -	- -	- 1 -	- 2 -	- 3 -	- 4 -	- 5 -	- 6 -	- 7 -	- 8 -	- 9 -	- 10 -
Calendar Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Land Investment	-	-	-												
Construction Cost	217,300,000	11,436,842	68,621,053	68,621,053	68,621,053	-	-	-	-	-	-	-	-	-	-
Construction % By Year /1		5.3%	31.6%	31.6%	31.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.00%
Inflation @ 3.0% /2	19,497,698	343,105	4,179,022	6,363,024	8,612,547	-	-	-	-	-	-	-	-	-	-
Inflated Construction Cost	236,797,698	11,779,947	72,800,075	74,984,077	77,233,599	-	-	-	-	-	-	-	-	-	-
Total Investment	236,797,698	11,779,947	72,800,075	74,984,077	77,233,599	-	-	-	-	-	-	-	-	-	-
Gross Income															
Gross Rental Income															
Leaseable SF	184,683														
Occupancy Rate	90.0% / 95.0%	0.0%	0.0%	0.0%	0.0%	90.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%
Occupied SF	175,449	-	-	-	-	166,215	175,449	175,449	175,449	175,449	175,449	175,449	175,449	175,449	175,449
Rent Rate/sf	5.83				6.60	6.60	6.60	6.60	6.60	7.47	7.47	7.47	7.47	7.47	8.45
Average Gross Rent	12,281,420	-	-	-	-	*13,164,204*	*13,895,549*	*13,895,549*	*13,895,549*	*15,727,235*	*15,727,235*	*15,727,235*	*15,727,235*	*15,727,235*	*17,790,513*
Other Revenue /3															
Parking Revenues	7,097,136	-	-	-	-	7,404,773	8,050,634	8,292,153	8,540,918	8,797,145	9,061,059	9,332,891	9,612,878	9,901,264	10,198,302
Vending/Events	200,000	-	-	-	-	208,669	226,870	233,676	240,686	247,907	255,344	263,004	270,895	279,021	287,392
PM/Media/Advertising	750,000	-	-	-	-	782,510	850,762	876,285	902,574	929,651	957,540	986,267	1,015,855	1,046,330	1,077,720
Valet, Misc	250,000	-	-	-	-	260,837	283,587	292,095	300,858	309,884	319,180	328,756	338,618	348,777	359,240
Total Other Revenue	8,297,136	-	-	-	-	8,656,789	9,411,854	9,694,209	9,985,035	10,284,587	10,593,124	10,910,918	11,238,245	11,575,393	11,922,655
Expense Recoveries															
CAM @ $0.50 psf /4	1,108,098	-	-	-	-	1,156,130	1,256,971	1,294,680	1,333,520	1,373,526	1,414,731	1,457,173	1,500,889	1,545,915	1,592,293
Effective Gross Income	**21,686,654**	-	-	-	-	***22,977,124***	***24,564,373***	***24,884,438***	***25,214,105***	***27,385,347***	***27,735,091***	***28,095,326***	***28,466,369***	***28,848,543***	***31,305,461***
Expenses															
CAM	1,108,098	-	-	-	-	1,156,130	1,256,971	1,294,680	1,333,520	1,373,526	1,414,731	1,457,173	1,500,889	1,545,915	1,592,293
Management @ 5.0%/ ($0.24/sf)	614,071	-	-	-	-	658,210	694,777	694,777	694,777	786,362	786,362	786,362	786,362	786,362	889,526
Total Expenses	**1,722,169**		-	-	-	**1,814,341**	**1,951,748**	**1,989,457**	**2,028,298**	**2,159,887**	**2,201,093**	**2,243,535**	**2,287,250**	**2,332,277**	**2,481,818**
NET OPERATING INCOME	**19,964,485**	-	-	-	-	**21,162,783**	**22,612,625**	**22,894,981**	**23,185,807**	**25,225,460**	**25,533,997**	**25,851,791**	**26,179,119**	**26,516,266**	**28,823,642**
Feasibility Analyses															
Yr 10 Reversion @ 7.00% Cap & 2.0% Sales Cost															408,500,000
NOI + Net Reversion		-	-	-	-	21,162,783	22,612,625	22,894,981	23,185,807	25,225,460	25,533,997	25,851,791	26,179,119	26,516,266	437,323,642
DCF @ 8.50% NPV	**$245,500,000**														
Surplus/ (Gap)	**$28,200,000**														
Cost + NOI+ Net Reversion		(11,779,947)	(72,800,075)	(74,984,077)	(77,233,599)	21,162,783	22,612,625	22,894,981	23,185,807	25,225,460	25,533,997	25,851,791	26,179,119	26,516,266	437,323,642

1/ RSG assumption, subject to receipt and review of development calendar from Related Cos.
2/ Based on data from ENR (Year Ending July 2015) and Turner Construction Company (Year Ending 2nd Quarter 2015)
3/ Estimated by RSG, subject to receipt and review of additional information from Related Cos.
4/ Estimated by RSG at $0.50 per month per sf and assumed to increase at same rate as rent.

RSG

Table 12: Condominium Projected Cash Flow and Return on Cost

CONDO COMPONENT
100 SOUTH GRAND AVENUE, LOS ANGELES

Forecast Year	Present Value	- 1 -	- 2 -	- 3 -	- 4 -	- 5 -	- 6 -	- 7 -	- 8 -	- 9 -	- 10 -	- 11 -	- 12 -	- 13 -	- 14 -
Operating Year		- -	- -	- -	- -	- 1 -	- 2 -	- 3 -	- 4 -	- 5 -	- 6 -	- 7 -	- 8 -	- 9 -	- 10 -
Calendar Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Land Investment	-	-	-												
Construction Cost	141,200,000	7,431,579	44,589,474	44,589,474	44,589,474	-	-	-	-	-	-	-	-	-	-
Construction % By Year /1		5.3%	31.6%	31.6%	31.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.00%
Inflation @ 3.0% /2	12,669,466	222,947	2,715,499	4,134,648	5,596,372	-	-	-	-	-	-	-	-	-	-
Inflated Construction Cost	153,869,466	7,654,526	47,304,973	48,724,122	50,185,845	-	-	-	-	-	-	-	-	-	-
Total Investment	153,869,466	7,654,526	47,304,973	48,724,122	50,185,845	-	-	-	-	-	-	-	-	-	-
Sales Proceeds															
Gross Sales															
Saleable SF	160,887														
Absorption		0.0%	0.0%	0.0%	25.0%	100.0%	100.0%	100.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Sold SF	160,887	-	-	-	40,222	160,887	160,887	160,887	160,887	-	-	-	-	-	-
Sale Price/sf	1,200.00	1,242.00	1,285.47	1,330.46	1,377.03	1,425.22	1,475.11	1,526.74	1,580.17	1,635.48	1,692.72	1,751.96	1,813.28	1,876.75	1,942.43
Total Sale Price	193,064,400	-	-	-	55,386,460	171,974,958	-	-	-	-	-	-	-	-	-
Less Cost of Sale	(13,514,508)	-	-	-	(3,877,052)	(12,038,247)	-	-	-	-	-	-	-	-	-
Net Sales Proceeds	**179,549,892**	-	-	-	**51,509,408**	**159,936,711**	-	-	-	-	-	-	-	-	-

Feasibility Analyses

Net Proceeds	$	179,500,000
Surplus/ (Gap)	$	38,300,000

1/ RSG assumption, subject to receipt and review of development calendar from Related Cos.
2/ Based on data from ENR *(Year Ending July 2015)* and *Turner Construction Company (Year Ending 2nd Quarter 2015)*

RSG

FEASIBILITY CONCLUSIONS

Based on the methodology and assumptions contained herein, and incorporating PKF's findings on the hotel, RSG estimates that the total valuation of the Project (including the hotel) is **$711.0 million**. When combined with the Project development costs of **$828.4 million**, the expected Project feasibility gap is **$117.4 million**.

A summary is presented below by land use.

Table 13: Development Feasibility and Gap

DEVELOPMENT COST, VALUATION AND GAP ANALYSIS
100 SOUTH GRAND AVENUE, LOS ANGELES

	Multifamily	Retail	Condo	Hotel	Total
	RSG	*RSG*	*RSG*	*PKF*	*RSG/PKF*
Final Development Costs /1	$ 206,725,407	$ 217,265,950	$ 141,231,146	$ 263,170,209	**$ 828,392,712**
Valuation /2	$ 146,300,000	$ 245,500,000	$ 179,500,000	$ 139,700,000	**$ 711,000,000**
Gap /3	**$ (60,400,000)**	**$ 28,200,000**	**$ 38,300,000**	**$ (123,500,000)**	**$ (117,400,000)**

1/ Final Development Costs are derived from the Development Costs table

2/ The method of valuing each component of the project varied by land use. Details can be found in the cash flow analysis for each component

3/ The Gap is derived by subtracting the Final Development Costs from the Valuation.

Sources: Related, RSG Inc, PKF Consulting USA

FISCAL IMPACT ANALYSIS

The Project will provide benefits to the City and County in the form of site-specific tax revenues generated by the proposed development. The City is primarily interested in the net new site-specific revenues. Net new revenue is defined as tax revenues to the City General Fund or County General Fund generated by the Project less any revenue already generated from the site or revenues transferred from other areas of the City or County.

The following analysis of Project-generated revenue is categorized by the following revenue sources:

- Property Tax;
- Sales Tax and In-Lieu Sales Tax Revenues;
- Transient Occupancy Tax (TOT);
- Motor Vehicle License Fee and Property Tax In-Lieu;
- Parking Occupancy Tax (split into first 10 years and afterwards);
- Gross Receipts Tax;
- Utility User's Tax;
- Property Transfer Tax (split into initial and recurring revenues);
- Construction Materials Sales Tax; and
- Construction Gross Receipts Tax.[4]

FISCAL IMPACT SUMMARY

The City's net new tax revenue presented in all fiscal impact revenue projections begins with "Construction Year One" in November 2017 and ends in 2045, a 25-year term beginning in the first year of operations in addition to a 38-month construction period. It is estimated that the Project will generate **$66.9 million** in tax revenue from certain sources (25-year discounted net present value at 10 percent represented as 2015 dollars) and **$66.4 million** (NPV 10 percent) in tax revenue from other sources through 2045, a total of **$133.3 million** (NPV 10 percent).

The County's net new tax revenue impact over this same period is projected to be **$25.2 million** (NPV 10 percent).

Table 14 provides a summary by revenue source of the total net new revenues for the City and County over the 25-year period.

[4] Construction Materials Sales Tax and Construction Gross Receipts Tax are one-time revenues generated from purchases of materials and from the business tax during the construction period.

Table 14: 25-Year Fiscal Impact Projections Summary

CITY AND COUNTY OF LOS ANGELES
100 SOUTH GRAND AVENUE, LOS ANGELES

	25 Year Net Fiscal Impact				
	City General Fund		County General Fund		Reference
Revenue Source	Nominal	NPV (10%)	Nominal	NPV (10%)	Tables
Transient Occupancy Tax	$ 189,137,620	$ 59,302,383	$ -	$ -	17
Parking Occupancy Tax, Years 1-10	12,697,000	7,624,000	-	-	22
Subtotal	$ 201,834,620	$ 66,926,383	$ -	$ -	
Property Taxes	$ 72,009,000	$ 26,722,000	$ 66,625,000	$ 24,725,000	18
Sales Tax and In-Lieu Sales Tax Revenue	55,760,000	17,626,000	-	-	19
Motor Vehicle License Fees and Property Tax In-Lieu	21,126,000	7,839,000	-	-	20
Gross Receipts Tax	3,204,000	1,002,000	-	-	21
Parking Occupancy Tax, Years 11-25	27,682,000	5,140,000	-	-	23
Utility User's Tax	7,211,000	2,280,000	-	-	24
Real Property Transfer Tax	3,118,000	922,000	765,000	227,000	25
Construction Materials Sales Tax	3,115,000	3,115,000	-	-	26
Contrsuction Gross Receipts Tax	866,000	866,000	-	-	27
Initial Property Transfer Tax	941,000	877,000	230,000	214,000	28
Subtotal	$ 195,032,000	$ 66,389,000	$ 67,620,000	$ 25,166,000	
NET NEW REVENUE TOTAL	**$ 396,866,620**	**$ 133,315,383**	**$ 67,620,000**	**$ 25,166,000**	

As described in the prior section, PKF has established a hotel gap of $123.5 million, although the total project gap is projected to be $117.4 million. According to the CLA, a tax rebate amount was previously approved in 2007 and a tax rebate district was formed in 2008. The Developer is seeking a rebate for the hotel component in the form of a TOT rebate of 25 years and a parking occupancy tax rebate of 10 years to close the project gap.

TAX REVENUES

The Project's pro forma states that it will take approximately 38 months to complete construction.[5] RSG assumed that construction of the Project will begin and reach 5 percent completion in 2017, reach 37 percent completion in 2018, reach 68 percent completion in 2019, reach 100 percent completion at the end of 2020, and begin operations on all components in 2021. It should be noted that the estimates in this Report exclude Project-related revenues expected for City and County dedicated funds, such as the City's Tourism Marketing District, City Fire, and the County's Flood Control, as well as other entities operating in the County, such as the Los Angeles County Metropolitan Transportation Authority (that receives 1.5 percent of the 9 percent sales tax levy).

The following subsections describe the special source, recurring, and one-time revenues examined; the methodology and approach used to project future revenue; and the amount of site-specific revenue generated.

Table 15 and Table 16 summarize the tax revenues projected for the City and County, respectively.

[5] Based on the Developer's June 2015 pro forma.

Table 15: 25-Year Fiscal Impact Projections for City

CITY OF LOS ANGELES
100 SOUTH GRAND AVENUE, LOS ANGELES

	Year	Net New Transient Occupancy Tax	Net New Property Tax	Net New Sales Tax	Net New VLF In-Lieu	Net New Gross Receipts Tax	Net New Parking Occupancy Tax, Years 1-10	Net New Parking Occupancy Tax, Years 11-25	Net New User Utility User Tax	Net New Real Property Transfer Tax	One-Time Tax Revenue	**Net New Total**
	2015	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	2016	-	-	-	-	-	-	-	-	-	-	-
CY 1	2017	-	103,000	-	30,000	-	-	-	-	-	377,000	510,000
CY 2	2018	-	734,000	-	215,000	-	-	-	-	-	1,166,000	2,115,000
CY 3	2019	-	1,390,000	-	408,000	-	-	-	-	-	1,201,000	2,999,000
CY 4	2020	-	2,073,000	-	608,000	-	-	-	-	-	1,469,000	4,150,000
1	2021	4,546,500	2,114,000	1,529,000	620,000	77,000	1,108,000	-	198,000	-	709,000	10,901,500
2	2022	5,166,420	2,156,000	1,575,000	633,000	87,000	1,141,000	-	204,000	35,000	-	10,997,420
3	2023	5,531,120	2,199,000	1,623,000	645,000	93,000	1,175,000	-	210,000	72,000	-	11,548,120
4	2024	5,701,220	2,243,000	1,671,000	658,000	96,000	1,210,000	-	216,000	110,000	-	11,905,220
5	2025	5,871,460	2,288,000	1,721,000	671,000	99,000	1,247,000	-	223,000	113,000	-	12,233,460
6	2026	6,041,700	2,334,000	1,773,000	685,000	102,000	1,284,000	-	229,000	115,000	-	12,563,700
7	2027	6,223,980	2,381,000	1,826,000	698,000	105,000	1,322,000	-	236,000	117,000	-	12,908,980
8	2028	6,418,440	2,428,000	1,881,000	712,000	108,000	1,362,000	-	243,000	119,000	-	13,271,440
9	2029	6,600,860	2,477,000	1,937,000	727,000	111,000	1,403,000	-	251,000	122,000	-	13,628,860
10	2030	6,807,500	2,526,000	1,996,000	741,000	115,000	1,445,000	-	258,000	124,000	-	14,012,500
11	2031	7,001,960	2,577,000	2,055,000	756,000	118,000	-	1,488,000	266,000	127,000	-	14,388,960
12	2032	7,211,960	2,628,000	2,117,000	771,000	122,000	-	1,533,000	274,000	129,000	-	14,785,960
13	2033	7,428,260	2,681,000	2,181,000	787,000	126,000	-	1,579,000	282,000	132,000	-	15,196,260
14	2034	7,651,140	2,735,000	2,246,000	802,000	129,000	-	1,626,000	290,000	134,000	-	15,613,140
15	2035	7,880,740	2,789,000	2,313,000	818,000	133,000	-	1,675,000	299,000	137,000	-	16,044,740
16	2036	8,117,200	2,845,000	2,383,000	835,000	138,000	-	1,726,000	308,000	140,000	-	16,492,200
17	2037	8,360,660	2,902,000	2,454,000	851,000	142,000	-	1,777,000	317,000	143,000	-	16,946,660
18	2038	8,611,540	2,960,000	2,528,000	868,000	146,000	-	1,831,000	327,000	146,000	-	17,417,540
19	2039	8,869,840	3,019,000	2,604,000	886,000	151,000	-	1,886,000	337,000	148,000	-	17,900,840
20	2040	9,135,980	3,080,000	2,682,000	904,000	155,000	-	1,942,000	347,000	151,000	-	18,396,980
21	2041	9,410,100	3,141,000	2,762,000	922,000	160,000	-	2,000,000	357,000	154,000	-	18,906,100
22	2042	9,692,340	3,204,000	2,845,000	940,000	165,000	-	2,060,000	368,000	158,000	-	19,432,340
23	2043	9,983,120	3,268,000	2,931,000	959,000	170,000	-	2,122,000	379,000	161,000	-	19,973,120
24	2044	10,282,580	3,334,000	3,018,000	978,000	175,000	-	2,186,000	390,000	164,000	-	20,527,580
25	2045	10,591,000	3,400,000	3,109,000	998,000	181,000	-	2,251,000	402,000	167,000		21,099,000
Total		$ 189,137,620	$ 72,009,000	$ 55,760,000	$ 21,126,000	$ 3,204,000	$ 12,697,000	$ 27,682,000	$ 7,211,000	$ 3,118,000	$ 4,922,000	$ 396,866,620
NPV	10%	$ 59,302,383	$ 26,722,000	$ 17,626,000	$ 7,839,000	$ 1,002,000	$ 7,624,000	$ 5,140,000	$ 2,280,000	$ 922,000	$ 4,858,000	$ **133,315,383**

RSG

Table 16: 25-Year Fiscal Impact Projections for County

COUNTY OF LOS ANGELES
100 SOUTH GRAND AVENUE, LOS ANGELES

	Year	Net New Property Tax	Net New Real Property Transfer Tax	Net New Initial Property Transfer Tax	**County General Total**
	2015	$ -	$ -	$ -	$ -
	2016	-	-	-	-
CY 1	2017	95,000	-	-	95,000
CY 2	2018	679,000	-	-	679,000
CY 3	2019	1,286,000	-	-	1,286,000
CY 4	2020	1,918,000	-	57,000	1,975,000
1	2021	1,956,000	-	173,000	2,129,000
2	2022	1,995,000	9,000	-	2,004,000
3	2023	2,035,000	18,000	-	2,053,000
4	2024	2,076,000	27,000	-	2,103,000
5	2025	2,117,000	28,000	-	2,145,000
6	2026	2,159,000	28,000	-	2,187,000
7	2027	2,203,000	29,000	-	2,232,000
8	2028	2,247,000	29,000	-	2,276,000
9	2029	2,292,000	30,000	-	2,322,000
10	2030	2,337,000	30,000	-	2,367,000
11	2031	2,384,000	31,000	-	2,415,000
12	2032	2,432,000	32,000	-	2,464,000
13	2033	2,481,000	32,000	-	2,513,000
14	2034	2,530,000	33,000	-	2,563,000
15	2035	2,581,000	34,000	-	2,615,000
16	2036	2,632,000	34,000	-	2,666,000
17	2037	2,685,000	35,000	-	2,720,000
18	2038	2,739,000	36,000	-	2,775,000
19	2039	2,793,000	36,000	-	2,829,000
20	2040	2,849,000	37,000	-	2,886,000
21	2041	2,906,000	38,000	-	2,944,000
22	2042	2,964,000	39,000	-	3,003,000
23	2043	3,024,000	39,000	-	3,063,000
24	2044	3,084,000	40,000	-	3,124,000
25	2045	3,146,000	41,000		3,187,000
Total		$ 66,625,000	$ 765,000	$ 230,000	$ 67,620,000
NPV	10%	$ 24,725,000	$ 227,000	$ 214,000	**$ 25,166,000**

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RECURRING REVENUES

TRANSIENT OCCUPANCY TAX

Transient occupancy taxes ("TOT") result from a fee charged upon hotel room stays. The City has a 14 percent TOT rate. The Developer proposes to construct as part of the Project a new 305-room hotel to occupy the North Tower.

The number of rooms occupied, the room rate, and the City's TOT tax rate determine the amount of TOT collected by the City. PKF performed a comprehensive analysis of average daily rates and occupancy rates for the hotel product type proposed in the Project. The hotel offers a total of 111,325 room nights (the number of rooms multiplied by the number of days per year). According to PKF, occupancy rates will increase from 68 to 78 percent between the first and third years of operation, stabilizing thereafter at 78 percent. The market supports an average daily room rate (ADR) of $370 in 2015 dollars. PKF projects ADR to increase to $429 by the first year of operation, and inflated ADR by 3 percent annually thereafter.

The Project is expected to generate over $5,500,000 per year once occupancy stabilizes in the third year of operation, and approximately $59.3 million over the 25-year projection period (2015 dollars). Table 17 shows the transient occupancy tax expected from the hotel component of the Project.

Table 17: Transient Occupancy Tax Revenue

CITY OF LOS ANGELES
100 SOUTH GRAND AVENUE, LOS ANGELES

	Year	Average Daily Rate	Annual Occupancy	Room Revenue	TOT Amount
1	2021	$ 429	68%	$ 32,475,000	$ 4,546,500
2	2022	442	75%	36,903,000	5,166,420
3	2023	455	78%	39,508,000	5,531,120
4	2024	469	78%	40,723,000	5,701,220
5	2025	483	78%	41,939,000	5,871,460
6	2026	497	78%	43,155,000	6,041,700
7	2027	512	78%	44,457,000	6,223,980
8	2028	528	78%	45,846,000	6,418,440
9	2029	543	78%	47,149,000	6,600,860
10	2030	560	78%	48,625,000	6,807,500
11	2031	576	78%	50,014,000	7,001,960
12	2032	593	78%	51,514,000	7,211,960
13	2033	611	78%	53,059,000	7,428,260
14	2034	629	78%	54,651,000	7,651,140
15	2035	648	78%	56,291,000	7,880,740
16	2036	668	78%	57,980,000	8,117,200
17	2037	688	78%	59,719,000	8,360,660
18	2038	708	78%	61,511,000	8,611,540
19	2039	730	78%	63,356,000	8,869,840
20	2040	752	78%	65,257,000	9,135,980
21	2041	774	78%	67,215,000	9,410,100
22	2042	797	78%	69,231,000	9,692,340
23	2043	821	78%	71,308,000	9,983,120
24	2044	846	78%	73,447,000	10,282,580
25	2045	$ 871	78%	$ 75,650,000	$ 10,591,000
Total					$ 189,137,620
NPV	10%				**$59,302,383**

Source: PKF Consulting

PROPERTY TAX

The City and County annually receive a portion of the ad valorem property taxes from all real property to pay for municipal and regional services. According to County of Los Angeles Auditor-Controller's office reports, the City's General Fund share of the 2014-15 property taxes within the Project is approximately 26.4 percent of the general 1 percent property tax levy, net of the Educational Revenue Augmentation Fund adjustment. Due to voter-approved indebtedness, the City receives proceeds for G.O. Bond debt service from an additional override levy, but because the increase in the tax base does not alter the total amount of proceeds from the override (which is limited to the annual debt service requirements) we have not included this override share in our forecast. Separately, the County's General Fund share of the 2014-15 property taxes within the Project is approximately 24.4 percent of the general 1 percent property tax levy.

RSG estimated property taxes based on the estimated Project values as described earlier in this Report, which may be less than total development costs as indicated herein. The Assessor generally cannot assess property on the roll for more than its market value and can exclude what it deems to be extraordinary development costs in the process of assessment, so RSG is using the lower Project value figure in estimating property tax revenues in this Report. Based on a total Project value of $711.0 million, we estimate the City is expected to receive over $2.1 million in property tax revenues in 2021 after construction is completed, which, applying the maximum Proposition 13 inflation rate, will increase 2 percent annually. All together, the City is expected to collect $26.7 million (2015 dollars) in property tax revenues through 2045.

The County would receive almost $2.0 million in property tax revenues after completion in 2021. Increasing at 2 percent annually, property tax revenues for the County would total $24.7 million (2015 dollars) through 2045. RSG's forecast of these property tax revenues for the City and County is presented below in Table 18.

Table 18: Property Tax Revenue

CITY AND COUNTY OF LOS ANGELES
100 SOUTH GRAND AVENUE, LOS ANGELES

Year	Assessed Value	1% Total Property Tax	City General Share	City General Revenue	County General Share	County General Revenue
2021	$ 800,758,000	$ 8,007,580	0.264000054	$ 2,114,000	0.244253355	$ 1,956,000
Total, 2017-2045				72,009,000		66,625,000
NPV, 10%				**26,722,000**		**24,725,000**

SALES TAX AND IN-LIEU SALES TAX REVENUE (2004 TRIPLE FLIP REVENUE)

One out of the 9 percent sales tax levied in the City by the State of California[6] is returned to the jurisdiction where the sales tax originated in what is referred to as the "situs rule." The City receives 1 percent of Project taxable sales based on quarterly apportionments from the State. Additional sales taxes for MTA/Metro transportation projects are excluded from these calculations in our Report.

According to the Developer, the Project's retail space will include 184,683 square feet of leasable retail space, consisting of 112,493 square feet of lifestyle retail, 1,509 of square feet of specialty retail space, 45,297 square feet of restaurant space, and a 25,384 square feet of fitness area (comprised of a second downtown LA Equinox gym and a SoulCycle center). Per the Developer's estimate and based on other work, RSG assumed that 5 percent of each of these spaces would be vacant. Sales tax revenue is determined by the estimated taxable sales revenue generated per square foot of leasable area multiplied by the City's share of sales tax (currently 1 percent). RSG received expected sales per square foot estimates from the Developer and found that they are within the range of market data for similar types of retail space. With a complete list of expected retail tenants, RSG could provide a more precise estimate of sales per square foot.

[6] www.boe.ca.gov

Using the Developer's sales per square foot estimates, the net new revenue generated by sales tax is expected to be nearly $1.7 million in 2021, increasing by 3 percent each year. Through 2045, the City is expected to receive over $17.6 million in sales tax revenues (2015 dollars). Sales Tax Revenue is split by retail category and summarized in Table 19.

Table 19: Sales Tax and In-Lieu Sales Tax Revenue

CITY OF LOS ANGELES
100 SOUTH GRAND AVENUE, LOS ANGELES

Retail Category	Net Leased Square Feet	Taxable Retail %	Taxable Sales per Square Foot	City Share of Annual Sales Tax
Retail	106,868	100%	$ 893	$ 954,000
Specialty Retail	1,434	100%	1,194	17,000
Restaurants	43,032	100%	1,254	540,000
Fitness / Soul Cycle	3,226	10%	119	4,000
Fitness / Equinox	20,889	10%	72	15,000
	Number of Rooms		Taxable Sales per Occupied Room	City Share of Annual Sales Tax
Room Service	305		$ 167	$ 139,000
Total, 2021				$ 1,669,000
Total, 2021-2045				55,760,000
NPV, 10%				**17,626,000**

MOTOR VEHICLE LICENSE FEES AND PROPERTY TAX IN-LIEU

Established in 1935, the Motor Vehicle License Fee ("VLF") was essentially a tax on vehicle ownership. It is collected by the State annually when vehicles are registered, and was historically allocated to cities and counties based upon a statutory formula. In 2004, during the State's budget crisis, about 90 percent of each city's VLF revenue was replaced with property tax revenue, and cities in particular began to receive an allocation of property tax from the Educational Revenue Augmentation Fund ("ERAF") in an amount equal to what they would have received in VLF under an older VLF allocation formula. Under current law, the property tax in-lieu of VLF revenue increases based on assessed value growth in a jurisdiction, so estimated revenues are based on changes in assessed value created by the Project. For the City, the formula to calculate VLF revenue can be simplified to 0.0775 percent of assessed value.

The Project is estimated to increase city-wide assessed valuation by the Project's corresponding assessed value, estimated to be $800,758,000 as described in the Property Taxes subsection earlier. Based on this assessed value, RSG anticipates the Project would generate approximately $620,000 in estimated In-Lieu VLF revenues at build-out in 2021. RSG applied a 2 percent growth rate to match the growth in Assessed Value. As depicted in Table

20, the City is expected to receive over $7.8 million in In-Lieu VLF revenues (2015 dollars) through 2045.

Table 20: Motor Vehicle License Fee In-Lieu Revenue

CITY OF LOS ANGELES
100 SOUTH GRAND AVENUE, LOS ANGELES

Year	Assessed Value	City VLF Share of Assessed Value	City Revenue
2021	$ 800,758,000	0.0775%	$ 620,000
Total, 2017-2045			21,126,000
NPV, 10%			**7,839,000**

GROSS RECEIPTS TAX

Section 21, Article 1, Chapter 2 of the Municipal Code outlines business taxes, to be imposed and collected by the City Office of Finance (also referred to as the Gross Receipts Tax). The Office of Finance Tax Information Booklet[7] outlines the commercial categories and rates at which business taxes are imposed. The three categories critical to the analysis of recurring Gross Receipts Tax are Retail Sales (Section 21.44 of the Business Tax Ordinance), Rental of Dwelling Units (Section 21.43 of the Business Tax Ordinance), and Rental of Commercial Property (Section 21.43 of the Business Tax Ordinance). Table 21 outlines the gross receipts tax rates for the varying business categories present in the Project.

The retail, specialty retail, and restaurant uses fall in the Retail Sales category. The hotel and multifamily residential uses fit into the Rental of Dwelling Units category. The fitness center matches the Professional and Occupations Businesses category. Finally, rental of retail and restaurant space will result in taxable gross receipts in the Rental of Commercial Property category.

Gross receipts tax is determined by applying the City's tax rate to the annual sales generated by the tenants, similar to sales tax except that the tax is levied on the seller's gross income (i.e., receipts) rather than the sale of goods themselves. RSG used the same estimation of gross annual sales for the Gross Receipts Tax as for Sales Tax. The Project is expected to increase gross receipts tax by $379,000 in 2021, the first year of operation. Assuming an annual inflation rate of 3 percent, total gross receipts tax revenues are expected to reach over $1.0 million (2015 dollars) through 2045, as shown in Table 21.

[7] www.finance.lacity.org/content/TaxInfoBooklet.htm

Table 21: Gross Receipts Tax Revenue

CITY OF LOS ANGELES
100 SOUTH GRAND AVENUE, LOS ANGELES

Business Category	Annual Gross Receipts	Gross Receipts Tax Rate (per $1,000 of gross receipts)	Gross Receipts Tax Revenue
Retail	$ 95,398,000	$ 1.27	$ 121,000
Specialty Retail	$ 1,712,000	1.27	$ 2,000
F&B (Other)	$ 53,952,000	1.27	$ 69,000
Fitness / Soul Cycle	$ 3,852,000	4.25	$ 16,000
Fitness / Equinox	$ 14,965,000	4.25	$ 64,000
Hotel	$ 48,710,000	1.27	$ 62,000
Apartments	$ 12,224,093	1.27	$ 16,000
Commercial Property Management	$ 22,998,000	1.27	$ 29,000
Total, 2021			$ 379,000
Total, 2021-2045			3,204,000
NPV, 10%			**1,002,000**

PARKING OCCUPANCY TAX, YEARS 1-10

In 1990, the City passed Ordinance 165,949 to impose a 10 percent tax on parking occupancy fees in the City. Residential parking spaces are exempt. Hotel parking spaces are exempt if the occupants remain at the hotel longer than 30 days. This Report assumes that no hotel occupants will remain longer than 30 days.

The Developer plans to include 1,040 non-residential parking spaces, including hotel parking, as part of the Project. RSG estimates that comparable spaces generate an average of approximately $10,700 in annual revenue per space in 2021 and projects a 3 percent annual inflation on this revenue.

The Project would generate $1.1 million per year in 2021, and approximately $7.6 million over the 10-year period through 2030 (2015 dollars). Table 22 illustrates the parking occupancy tax revenue expected in the first 10 years of the Project.

Table 22: Parking Occupancy Tax Revenue, First 10 Years

CITY OF LOS ANGELES
100 SOUTH GRAND AVENUE, LOS ANGELES

	Number of Non-residential spaces	Annual Revenue per space	Annual Parking Revenue	Tax Rate	Tax Revenue
2021	1040	$ 10,700	$ 11,080,000	10%	$ 1,108,000
Total, 2021-2030					$ 12,697,000
NPV, 10%					**$ 7,624,000**

Using the same assumptions described in the subsection on the first 10 years of the Parking Occupancy Tax, the tax revenue for the same source over the remaining 15 years (2031-2045) would equal more than $5.1 million (2015 dollars). The parking occupancy tax from years 11-25 is summarized in Table 23.

Table 23: Parking Occupancy Tax Revenue, After First 10 Years

CITY OF LOS ANGELES
100 SOUTH GRAND AVENUE, LOS ANGELES

	Number of Non-residential spaces	Annual Revenue per space	Annual Parking Revenue	Tax Rate	Tax Revenue
2031	1040	$ 14,300	$ 14,880,000	10%	$ 1,488,000
Total, 2031-2045					$ 27,682,000
NPV, 10%					**$ 5,140,000**

UTILITY USERS' TAX

The City of Los Angeles Municipal Code Article 1.1, Chapter 2 imposes a tax on telephone, electricity, and natural gas users in the City. Telephone use has been excluded from this analysis due to unpredictable use patterns. Electricity and natural gas, however, are fairly predictable utilities. RSG used data from the U.S. Energy Information Administration for the Western States to calculate expenditures per square foot or per residential unit and applied a factor to account for inflation since the data was produced.

Based on these inflation-adjusted Federal data, retail uses generally consume $1.89 in electricity costs per square foot and $0.18 in natural gas costs per square foot. Restaurants average $4.78 in electricity costs per square foot and $1.50 in natural gas costs per square foot. Hotel uses consume an average of $1.84 per square foot in electricity costs and $0.60 per square foot in natural gas costs.

In addition, residential rentals located in multifamily structures tend to use $672 per unit on electricity and $289 per unit on natural gas. Ownership housing spends an average of $758 per unit in electricity costs and $340 per unit in natural gas costs. The City's electricity utility user tax is 12.5 percent of the electricity bill for commercial uses and 10 percent for residential uses, and the natural gas utility user tax is 10 percent of the natural gas bill.

Following the same assumptions of use and occupancy as described in the Sales Tax subsection. The Project is anticipated to generate electricity bills totaling approximately $1.1 million and natural gas bills of $347,000. In 2015 dollars, these utility bills will result in approximately $131,000 of electricity utility user tax revenues and $35,000 of natural gas utility user tax revenues per year, or $197,700 by 2021 when the Project is completed. Assuming an annual 3 percent inflation rate, the Project may generate nearly $2.3 million (2015 dollars) in electricity and natural gas utility user taxes over the 25-year period (Table 24).

Table 24: Utility Users' Tax Revenue

CITY OF LOS ANGELES
100 SOUTH GRAND AVENUE, LOS ANGELES

Use Category	Net Leased Square Feet	Electricity Tax Rate	Electricity Tax Revenue	Natural Gas Tax Rate	Natural Gas Tax Revenue	Total Utility Users' Tax Revenue
Retail	106,868	12.5%	$ 30,400	10.0%	$ 2,500	$ 32,900
Specialty Retail	1,434	12.5%	400	10.0%	$ -	$ 400
Restaurants	43,032	12.5%	30,800	10.0%	$ 7,800	$ 38,600
Fitness Center/Soul Cycle	3,226	12.5%	2,300	10.0%	$ 600	$ 2,900
Fitness Center/Equinox	20,889	12.5%	5,900	10.0%	$ 500	$ 6,400
Hotel Rooms	175,658	12.5%	50,700	10.0%	$ 14,400	$ 65,100
	Units					
Apartments	301	10.0%	24,200	10.0%	$ 10,400	$ 34,600
Condominiums	128	10.0%	11,600	10.0%	$ 5,200	$ 16,800
Total, 2021						$ 197,700
Total, 2021-2045						7,211,000
NPV, 10%						**2,280,000**

PROPERTY TRANSFER TAX

Pursuant to the authority contained in Part 6.7 (commencing with Section 11901) of Division 2 of the Revenue and Taxation Code of the State of California, the City imposes a tax on each deed, instrument, or writing by which any lands, tenements, or other realty are sold within the City at the rate of $2.25 for each $500 or fractional part thereof of the transferred property's value. The County imposes a similar tax at the rate of $1.10 for each $1,000 or fractional part thereof of the transferred property's value.

The Project includes 128 for-sale condominiums. Based on an analysis of condominium turnover rates in similar areas of the City, RSG estimates that after initial sales and a stabilization period, an average of seven of these condominiums will be sold in any given year. Table 25 summarizes property transfer tax projections.

Table 25: Property Transfer Tax Revenue

CITY AND COUNTY OF LOS ANGELES
100 SOUTH GRAND AVENUE, LOS ANGELES

Year	Number of Condominiums	Average Unit Size (square feet)	Price Per Square Foot	Turnover Rate	Transfer Value	City Transfer Tax Rate / $500	City Transfer Tax Revenue	County General Fund Rate / $1,000	County General Fund Revenue
2024	128	1,214	$ 1,434	11%	$ 24,513,000	$ 2.25	$ 110,000	$ 1.10	$ 27,000
Total, 2022-2045							3,118,000		765,000
NPV, 10%							**922,000**		**227,000**

ONE-TIME REVENUES

Just as the taxes previously mentioned are levied annually on transactions and ownership, similar taxes are applied to the construction and initial activities. The following describe the one-time construction-related and initial sale revenues that the Project will generate.

CONSTRUCTION SALES TAX

RSG used construction information provided by the Developer to estimate that the cost of construction materials for the Project. Since the Project is supposed to receive a LEED Silver certification and the Developer aims to use the City as the "point of sale" for major construction purchases, RSG estimates that 90 percent of construction materials will be purchased within the City, equal to approximately $278.3 million in construction material purchases made in the City limits.

Construction sales tax revenues are the result of the City's sales tax rate assessed on the price of materials purchased in order to construct the Project. These include materials such as lumber, glass, concrete, and piping. The City's sales tax rate is 1.0 percent, as previously discussed in the Sales Tax subsection. The total impact of construction sales taxes is expected to be approximately $3.1 million (2015 dollars). Table 26 describes the distribution of construction materials sales and related sales tax revenue over the construction period.

Table 26: Construction Materials Sales Tax Revenue

100 SOUTH GRAND AVENUE, LOS ANGELES

	Year	Cost of Construction Materials Purchased in City	City Revenue
CY 1	2017	$ 28,669,000	$ 295,000
CY 2	2018	$ 88,588,000	912,000
CY 3	2019	$ 91,245,000	940,000
CY 4	2020	$ 83,502,000	968,000
Total		208,502,000	3,115,000
NPV	10%		**3,115,000**

CONSTRUCTION GROSS RECEIPTS

Section 21.188 of the City's Business Tax Ordinance establishes a gross receipts tax for entities engaged in the construction, alteration, repair, or demolition of any building. The gross receipts tax includes a base tax of $153 on all construction up to $60,000. Beyond $60,000, the construction business is taxed at a rate of $1.01 for every $1,000 in excess of $60,000. RSG applied the base tax and tax rate per $1,000 of gross receipts to the sum of the Project hard costs, architecture and engineering costs, the cost of specialty consultants, and the Developer's fee as these are the costs to the Project contractor or construction-based businesses.

Certain other soft costs are also subject to the gross receipts tax as they represent receipts for other entities. The insurance, legal, accounting, title insurance, and marketing costs for the Developer are receipts for the respective firms providing those services. They are subject to the gross receipts tax rate for Professions and Occupations Businesses, $5.07 per $1,000 of gross receipts. Finally, the costs for leasing and commissions represent income for an entity engaged in the business of renting or letting a building to tenants for purposes other than dwelling, rendering that entity subject to the gross receipts tax rate for Rental of Commercial Property, $1.27 per $1,000 of gross receipts.

From all of these sources, the total Project gross receipts tax revenues are expected to be approximately $866,000 (2015 dollars). Table 27 provides the total gross receipts tax revenues generated as a result of the Construction Gross Receipts.

Table 27: Construction Gross Receipts Tax Revenue

CITY OF LOS ANGELES
100 SOUTH GRAND AVENUE, LOS ANGELES

	Year	Gross Receipts Related to Construction Expenditures in City	City Revenue
CY 1	2017	$ 66,852,000	$ 82,000
CY 2	2018	$ 206,574,000	254,000
CY 3	2019	$ 212,771,000	261,000
CY 4	2020	$ 194,716,000	269,000
Total		680,913,000	866,000
NPV	10%		**866,000**

INITIAL PROPERTY TRANSFER TAX

This report separates the property transfer tax revenue due to the initial condominium sales from the same tax due to recurring condominium sales in keeping with the separation of one-time and recurring revenues.

RSG assumed that 25 percent of the 128 condominiums will be sold in 2020 and the remaining condominiums will be sold in 2021. These sales would lead to $877,000 (2015 dollars) of property transfer tax revenue for the City and $214,000 (2015 dollars) for the County, as shown in Table 28.

Table 28: Initial Property Transfer Tax Revenue

100 SOUTH GRAND AVENUE, LOS ANGELES

	Year	Transfer Value	City Transfer Tax Rate / $500	City Revenue	County Transfer Tax Rate / $1,000	County Revenue
CY 1	2017	$ -	$ 2.25	$ -	$ 1.10	$ -
CY 2	2018	-	2.25	$ -	1.10	$ -
CY 3	2019	-	2.25	$ -	1.10	$ -
CY 4	2020	50,460,000	2.25	$ 232,000	1.10	$ 57,000
1	2021	139,853,000	2.25	$ 709,000	1.10	$ 173,000
Total				941,000		230,000
NPV	10%			**877,000**		**214,000**

RSG

ECONOMIC IMPACT ANALYSIS

Development and ongoing operation of the Project will generate employment opportunities, add labor income to the market area, and add value to the gross regional product. For the purpose of this analysis, RSG used the IMPLAN model to measure the economic impacts of the Project using zip code-based data for the City and County. IMPLAN is an input-output analysis software tool that tracks the interdependence among various producing and consuming sectors of the economy. According to MIG, Inc., the creators of IMPLAN, the software measures the relationship between a given set of demands for final goods and services and the inputs required to satisfy those demands. IMPLAN publishes countywide data on an annual basis; this analysis utilized the 2013 County of Los Angeles dataset (the latest available) to calculate direct, indirect, and induced impacts.

The IMPLAN inputs are investment or operating costs of the Project and the resulting outputs are economic impacts, including employment generation, labor income, and gross regional product. Jobs are the primary impacts calculated by IMPLAN. Labor income includes all forms of employee compensation, including wages and benefits added to the City. Finally, economic output represents the value of industry production – for service sectors, output is equivalent to gross sales, and for retail and wholesale trade, output represents gross margin, not gross sales.[8]

RSG analyzed both temporary and permanent economic impacts. The total Project direct costs ($618,535,161) derived from the feasibility analysis were used to determine temporary economic impacts resulting during construction of the Project. These hard costs were divided according to residential development ($261,669,945) and nonresidential development ($356,865,216). The former corresponds to IMPLAN Sector 60, "Construction of new multifamily residential structures." The latter corresponds to IMPLAN Sector 57, "Construction of new commercial structures, including farm structures."

The Project's gross annual receipts, including from the retail, restaurants, fitness center, apartments, and hotel ($205,488,223) were used to determine permanent economic impacts resulting during operation of the Project. The permanent input data categories for the Project are more complex than the temporary input data categories and are separated as follows:

- Retail Stores – Clothing and clothing accessories stores, IMPLAN Sector 403
- Retail Stores – Electronics and appliances stores, IMPLAN Sector 398

[8] http://implan.com/V4/index.php?option=com_glossary&Itemid=57. IMPLAN uses a concept called "margins" to allocate expenditures through a supply chain from a retailer to a manufacturer. Essentially, using margins enables the IMPLAN model to output producer or purchaser impacts. For example, the cost associated with the manufacture of a product is $60. By the time the product is transported ($10 margin), sold by a wholesaler ($10 margin), and sold by a retailer ($20 margin), the product is $100 and includes a variety of margins. Margins apply to retail stores, like furniture and home furnishing stores and food and beverage stores, but do not apply to services, like fitness and recreational sports centers and restaurants.

- Retail Stores – Health and personal care stores, IMPLAN Sector 401
- Retail Stores – Miscellaneous stores retailers, IMPLAN Sector 406[9]
- Full-service restaurants, IMPLAN Sector 501
- Fitness and recreational sports centers, IMPLAN Sector 497
- Real estate, IMPLAN Sector 440
- Hotels and motels, including casino hotels, IMPLAN Sector 499

RSG analyzed the direct, indirect, and induced effects for each of the economic outputs both during the construction phase (Temporary Impacts) and operations phase (Permanent Impacts). The various types of effects are described below:

Direct Effects – Refers to the direct effects that occur on the Project site resulting from development costs and operational sales revenue.

Indirect Effects – Changes in sales, jobs, and/or income within the businesses that supply goods and services to the Project. Indirect effects do not occur directly on the Project-site but are an indirect effect to surrounding or related businesses.

Induced – Regional changes resulting from additional spending earned either directly or indirectly from the Project.

The IMPLAN analysis concludes that the temporary construction component of the Project will result in 3,597 new direct full-time and part-time jobs, 1,914 indirect full-time and part-time jobs, and 1,680 induced full-time and part-time jobs within the City. The total temporary construction jobs attributed to the Project total nearly 7,200 full-time and part-time jobs.

The total temporary direct labor income resulting from the Project is $233.1 million, indirect labor income is $77.2 million, and induced labor income totals $64.9 million. The temporary economic output of the Project directly correlates to the direct construction costs, including $618.5 million of direct economic output, $232.2 million of indirect economic output, and $186.1 million of induced economic output. The total direct, indirect, and induced economic output generated by the construction of the Project exceeds $1.03 billion within the City limits and over $1.08 billion within the County boundary.

The permanent impacts attributed to the Project are 1,996 direct full-time and part-time jobs, 310 indirect full-time and part-time jobs, and 390 induced full-time and part-time jobs within the City. The total permanent operation jobs attributed to the Project total 2,696 full-time and part-time jobs.

The permanent labor income generated by the operations of the project totals $66.2 million of direct labor income, $15.6 million of indirect labor income, and $17.1 million of induced labor income. The permanent economic output includes $156.4 million of direct economic output, $46.0 million of indirect economic output, and $49.0 million of induced economic output. The

[9] This category includes miscellaneous store retailers, such as florists, office supplies and stationary stores, pet and pet supplies stores, and tobacco stores.

total permanent direct, indirect, and induced economic output of the Project exceeds $251.3 million within the City limits and over $272.1 million within the County boundary.

The table that follows outlines the economic impacts, including full-time and part-time jobs, within the City and County boundaries.

Table 29: Economic Impacts

CITY AND COUNTY JOBS AND ECONOMIC OUTPUT
100 SOUTH GRAND AVENUE, LOS ANGELES

CITY OF LOS ANGELES	Direct	Indirect	Induced	**Total**
Temporary (Construction)				
Employment				
Full Time Employment	2,989	1,049	921	**4,959**
Part Time Employment	608	865	759	**2,232**
Economic Output	$ 618,535,184	$ 232,217,137	$ 186,088,385	**$ 1,036,840,706**
Permanent (Operations)				
Employment				
Full Time Employment	1,397	170	214	**1,781**
Part Time Employment	599	140	176	**915**
Economic Output	$ 156,383,567	$ 45,967,147	$ 49,040,439	**$ 251,391,153**

COUNTY OF LOS ANGELES	Direct	Indirect	Induced	**Total**
Temporary (Construction)				
Employment				
Full Time Employment	2,989	1,133	1,106	**5,228**
Part Time Employment	608	934	912	**2,454**
Economic Output	$ 618,535,184	$ 246,675,012	$ 219,934,262	**$ 1,085,144,458**
Permanent (Operations)				
Employment				
Full Time Employment	1,397	213	262	**1,872**
Part Time Employment	599	176	216	**991**
Economic Output	$ 156,383,567	$ 56,555,972	$ 59,197,443	**$ 272,136,982**

Sources: RSG Inc, MIG Inc

CONCLUSIONS

RSG and PKF estimate that if the Project were developed as proposed, the Project would have a net positive impact on the local economy, be a catalyst for downtown development, and directly result in nearly 2,000 permanent jobs, and generate for the City General Fund over $133.3 million (NPV) over 25 years, without considering indirect and induced impacts. However, the Project currently faces a feasibility gap of $117.4 million. The shortfall could be closed by means of one or more of the following measures:

- Developer Achieves Project Savings: the Developer absorbs all or a portion of the feasibility gap and/or value engineers the Project without impairing the quality of the Project or reducing the net new fiscal and economic benefits to the City and County.

- Developer Plan Modifications: The Developer may find opportunities to increase the efficiency of the Project. Modifying the Project to increase efficiencies may dramatically increase leasable square footage, and, in turn, operating income.

- City Assistance: The City provides an economic development subsidy, subject to preparation and approval of a subsidy report, in the form of tax rebates over the next 25 years, subject to negotiations with the Developer, limited by the lesser of the Project feasibility gap or 50% of the net new revenues.

- County Assistance: The County, recognizing the fiscal and economic benefits of this Project, provides a subsidy as a function of some portion or all of the County's $25.2 million (NPV 10 percent) net new fiscal benefits.

- Other Assistance: With a substantial affordable component, there may be other grants or loans from governmental or pseudo-governmental agencies that may help close the gap.

ATTACHMENT C
Memorandum of Understanding
Between the City of Los Angeles
and Grand Avenue L.A., LLC

Memorandum of Understanding Between the City of Los Angeles and Grand Avenue L.A., LLC

The above listed parties enter into this updated Memorandum of Understanding (MOU) as of May [__], 2016, to provide non-binding guidelines for the revision of previously approved documents, and completion of new agreements, as needed, between the parties for development of the Grand Avenue Project including a proposed hotel.

PROJECT BACKGROUND

The Los Angeles Grand Avenue Authority (Authority) was created through a Joint Exercise of Powers agreement entered into by and among the County of Los Angeles (County), The Community Redevelopment Agency of the City of Los Angeles, California (CRA) (which has been succeeded by The Community Redevelopment Agency of the City of Los Angeles, California, a designated local agency (CRA/DLA), and the City of Los Angeles (City) on or about September 2, 2003, for facilitating the development of the Grand Avenue Project (the Project) on four parcels of land owned by the CRA and the County commonly referred to as Parcels Q, L, M-2, and W-2 in the Bunker Hill Redevelopment Project Area. The Authority conducted a competitive solicitation to identify a developer for the Project and selected The Related Companies (Developer).

The Project is intended to create a vital urban destination on Bunker Hill with a vibrant regional center adding hotel, entertainment, restaurant and retail uses to the existing government, cultural and residential uses in the area. Improving public spaces has also been a focus, including transforming the former County Mall into the 16-acre Grand Park stretching from City Hall to the Music Center, together with numerous streetscape improvement projects. The Project approvals now include approximately 337,000 square feet of retail space, approximately 300 room four-star hotel (Hotel), approximately 2,600 housing units comprised of condominium and rental, the Broad Museum, approximately 5,000 parking spaces, and the now complete Grand Park.

Construction of the Parcel Q element of the Project including the hotel was scheduled to commence in 2008, but was delayed due to economic conditions. However, construction of the Grand Park, for which the Developer served as project manager, went ahead and the park opened in July 2012. In addition, the Developer cooperated with amendments to Phase II in order to provide for the development of the Broad Museum, a world-class contemporary art museum, together with a 370 space public garage on Parcel L. The Developer completed construction on Parcel M-2 with a 20-story, 271-unit residential tower known as the Emerson which has opened together with its ground floor restaurant Vespaio. The Developer is also cooperating with representatives of the Broad Museum and the CRA/DLA on a 24,000 square foot public plaza as part of Phase IIB and a proposed connection from the Phase IIC Parcel to the planned Regional Connector stop nearby.

In February 2007, August 2010, May 2012, December 2012, and July 2014, the Authority approved various actions related to the phased development of the Project, including a First, Second, Third and Fourth Amendment to the Disposition and Development Agreement (DDA) between Developer and the Authority, which provide for various revisions to the scope of development in accordance with the changes summarized above.

In January 2014, the Authority approved a revised concept plan and project description for the development of Parcel Q of the Project. The approved program for Parcel Q includes approximately 200,000 square feet of dining and entertainment venues, restaurants, signature retailers and a series of small shops; the Hotel; a public plaza with public programs and amenities; a pavilion for special events; parking; and approximately 450 housing units, 20 percent of which will be affordable to low income households. Implementation of the current project design for Parcel Q required amendments to the DDA, approval of the Fourth Amendment, and various approvals and actions associated with that amended DDA. The City, as well as the Authority, the County and the CRA/DLA in their governmental capacity all approved the terms of the Fourth Amendment to the DDA including an updated hotel program for Parcel Q. In July 2014, the City approved a revised MOU which updated the terms of the previously approved March 2007 Original MOU and approved sbe/SLS as the Hotel Operator.

Subsequent to those approvals, the Developer has revised the housing mix in the project, removed the office component; and selected a new hotel brand, Equinox. As a result of these changes to the project, it was necessary to revise the fiscal and economic analysis of the project. Since initiation of the revised analysis, the Authority approved an Equinox branded hotel as the Hotel Operator. Revisions to the MOU are now necessary to approve the Equinox branded hotel as the Hotel Operator and reflect results of the updated fiscal and economic analysis based on current financial conditions related to the revised project description. In addition, the City has determined that Community Taxing District No. 2 shall be dissolved and replaced with a Hotel Development Incentive Agreement which serves as the most efficient tool to implement and monitor any financial support provided to the project. The Developer is also working with the Authority on a proposed Fifth Amendment to the DDA which will approve the current scope of development as well as the Equinox hotel. The Fifth Amendment will also approve the admission of a new equity investor to the project. Related has agreed on terms with the equity investor and the government approvals including this MOU and the Fifth Amendment and associated issues are required in order to finalize that investment. With City approval of the MOU, the Fifth Amendment and associated documents, the equity investment can proceed which makes possible the securing of construction and other necessary financing in compliance with the DDA's required Schedule of Performance as updated by the Fifth Amendment.

The Hotel remains a critical component of the Project and is seen as catalytic to the success of the remaining Project elements. The Hotel not only provides the impetus to activate the public use of the site, it also provides the foundation for the Project's retail, commercial and restaurant uses. The Hotel will be designed to be constructed and maintained as a full-service, four-star facility, providing approximately 300 guest rooms. Given the uniqueness of the Parcel Q design as a centerpiece for the Project and the entire Project as a significant cultural center for downtown Los Angeles, the Parcel Q design is expected to generate its own market and become a focal point highlighting Grand Avenue as a destination location.

CITY INVESTMENT

The sources of City support for the financing and implementation of Parcel Q are outlined below. The City finds these terms to be acceptable in concept for negotiation and clarification of amendments to the City's prior agreements, subject to the terms of this MOU, and any other documentation necessary and appropriate to support the implementation of the development of Parcel Q as now proposed. The concepts to be further considered and negotiated are:

1. Community Taxing District (CTD): On December 2, 2008, the Los Angeles City Council approved Ordinance No. 108042 thereby creating City of Los Angeles Community Taxing District No. 2 (Grand Avenue Project) for the purpose of providing an estimated Sixty Six Million Dollars ($66,000,000) (Financing Gap) in potential financial assistance measured by the Transient Occupancy Taxes (TOT) generated from the Hotel and Parking Occupancy Taxes (POT) received by the City from the Hotel's public parking facilities. Based on updated analysis of the proposed plan, the maximum amount for assistance is now an estimated $66,657,692] in potential financial assistance (subvention assistance) ; this includes the estimated net present value of the TOT and the POT revenues received by the City (Revised Financing Gap).

2. City Agreements: The Parties entered into an implementation agreement (Implementation Agreement) on December 10, 2008 as well as other agreements entered into or approved in conjunction with the formation of the CTD (City Agreements) in order to set forth the terms and conditions of the City's provision of the agreed upon financial assistance. Those agreements will be amended to reflect the current design and finance proposal for Parcel Q including, as noted above, the potential for subvention assistance to be provided through a special fund.

3. Tax Revenues. Based on the estimated net present value of TOT revenues, the City Agreements will provide for a minimum of [Forty Nine Million Eight Hundred Eighty Five Thousand and Four Hundred Eighty Dollars ($49,885,480)] in funding ("City Minimum TOT Commitment") over a twenty-five year term. The City will increase the funding to an amount not to exceed [Fifty Nine Million Three Hundred Two Thousand and Three Hundred Eighty Three Dollars ($59,302,383)] in estimated net present value TOT revenues ("City Maximum TOT Commitment"), provided that such increase is subject to and conditioned upon terms to be directed by the Council as set forth in paragraphs 15 and 16 below over a twenty-five year term (TOT Term). In addition, the City will provide POT revenues over a 10-year term (POT Term), with estimated net present value not to exceed [Seven Million Six Hundred Twenty Four Thousand Dollars ($7,624,000)] subject to and conditioned upon repayment provisions set forth in the original Agreement. The amount and term of the City's assistance shall not exceed the commitment described in this paragraph.

4. City's Financial Analysis: The City has conducted an independent financial analysis which concurs in the Developer's assertion that the Parcel Q element of the Project has a Financial Gap.

CITY TERMS AND CONDITIONS

5. Conditional Obligations: The City's financing commitments will be conditional obligations payable solely from, or measured by tax revenues received by the City from the development of Parcel Q and be subject to the Developer, and Developer's tenants, including the Hotel Operators, continued compliance with all terms of the City Agreements.

6. Construction Costs and Parcel Q Financing Audit: Upon completion of development of the Hotel, Developer shall submit a certification from the architect for the Hotel stating that the improvements to the Site have been made in accordance with the Plans and Specifications and the terms of the Finance Documents. Upon (1) submission of the architect's certification, (2) a determination of final Hotel construction costs, (3) a determination by the City that Developer has completed the Hotel in full conformance with industry standards for a four-star hotel and the Plans and Specifications, (4) a determination by the City that Developer has satisfied all of Developer's development obligations under this Agreement and the City Agreements, and (5) completion of an independent audit of the development and construction costs, Developer and City will conduct an updated review of the Hotel development and construction costs and project financing and other factors as agreed to by the parties to reevaluate and adjust the maximum amount of City Financial Assistance. Upon completion of this review, the term and amount of the TOT assistance may be adjusted, but may not be higher than the City Maximum TOT Commitment or longer than 25 years.

7. Transfer of Hotel and Property: The Developer shall not sell, assign, convey or transfer the Hotel or the leasehold interest in the parcel of real property upon which the Hotel is located without the prior written consent of the City for the duration of the Term.

8. Hotel Rating: The Hotel will achieve and maintain a four star rating as defined and as determined by the Forbes Travel Guide, or at an equivalent level by an alternative nationally recognized hotel rating service for the duration of the Term as set forth in the City Agreements; recognizing that as the Equinox branded hotel is a new Hotel Operator, its initial Four Star rating must be achieved within two (2) years after the Grand Opening of the hotel, or remedies as specified in the City Agreements shall apply.

9. Hotel Operator: The initial Hotel Operator will be changed from sbe/SLS to an Equinox branded hotel, and any proposed change during the Term shall require the prior written approval of the City.

10. Hotel Operation: The Hotel shall be operated in accordance with the hotel operating covenants and all other restrictions set forth in the City Agreements for the entire term.

11. Construction Sales Tax: The Developer will cause the City of Los Angeles to be designated as the "point of sale" for all construction related purchases including purchases made by any subcontractors of the developers of the hotel and the rest of Parcel Q.

12. Community Benefits Package: A Community Benefits Package has previously been approved by the City for development of the Hotel and other portions of Parcel Q. The package includes affordable housing, local hiring, living wage requirements, job training and job creation, open space, and inclusion of art elements.

13. Cooperation: The City has previously approved entitlements for the site including a Development Agreement and will continue to cooperate in processing any requests for variances, amendments or other modifications of the various land use controls to accommodate the scope of development in the plans and specifications prepared for the Project.

14. Site Map: Attached hereto as Exhibit A and incorporated herein.

15. Additional Potential Contributions: The Additional Potential Contribution to the Hotel Development Incentive shall be calculated in a manner approved by Council and the Mayor.

16. City Maximum Contribution: In no circumstance shall the total of the City's contribution from all sources exceed 50 percent of the City's share of the sources of Net New Revenues collected by the City. Net New Revenues shall be defined as City General Fund tax revenues collected by the City as a result of Parcel Q less the revenues currently generated to the City by Parcel Q, recognizing that the site is currently occupied by a parking garage.

17. Cooperation: In the event that the City and the Developer agree to alter or amend the CTD funding structure, the Parties shall cooperate in drafting any documents necessary to effectuate such transfer.

18. Costs: Developer shall reimburse the City for any costs associated with a revision of the funding structure up to a maximum of $25,000.

19. Government Code Section 53083: Developer shall cooperate with the City in complying with the disclosure and public hearing requirements set forth in Government Code Section 53083, including, to the extent necessary providing any tax data or confidentiality waivers deemed by the City as necessary to ensure compliance with all statutorily required reporting requirements.

MOU IMPLEMENTATION

The parties further acknowledge and agree that this MOU is merely an expression of the Parties agreement in concept to the terms to be negotiated and further acknowledge and agree that the terms set forth in this MOU are not binding on any of the parties.

This MOU authorizes the Parties to negotiate and draft written agreements, which may include amendments to previously approved agreements and/or any other documents necessary to implement the terms of any agreed upon restructuring of the terms or conditions of any City Agreement, or to the extent applicable, any other agreement to which the City may or may not be a party but which is necessary to effectuate the terms of the Parties' agreement, i.e., as directed by Council under paragraph 15 above. The Developer acknowledges and agrees that the final agreements, as well as any ordinances or other legislative acts necessary to effectuate the terms of any proposed agreement between the Parties must be approved by the City Council and, if applicable, the Mayor, as set forth in the Los Angeles City Charter and/or Administrative Code or as otherwise required by law.

IN WITNESS WHEREOF, the parties executed this Memorandum of Understanding on the dates indicated.

THE CITY OF LOS ANGELES:

By: ______________________________

Date: ____________________________

DEVELOPER:

GRAND AVENUE L.A., LLC,
a Delaware limited liability company,

By: THE RELATED COMPANIES, L.P.,
a New York limited partnership
its Administrative Member

By: The Related Realty Group, Inc.,
a Delaware corporation,
its sole General Partner

By: ______________________
[Name and Title]

Date: ______________

APPROVED AS TO FORM:

[Name], City Attorney

By: ______________________________
[Name]
Deputy City Attorney

Date: ____________________________

ATTESTED:

[Name], City Clerk

By: ______________________________
Deputy City Clerk

Date: ____________________________