Attachment C

Grand Avenue Feasibility and Economic Impact Assessment

by Rosenow Spevacek Group, Inc.

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GRAND AVENUE FEASIBILITY AND ECONOMIC IMPACT ASSESSMENT

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INTRODUCTION

In January 2014, Related Companies (dba Grand Avenue L.A. LLC) ("Developer") received approval of the form of the Fourth Amendment to their Disposition and Development Agreement ("DDA") with the Los Angeles Grand Avenue Authority ("JPA"), which sets forth updates to the terms for developing the Parcel Q as an iconic 1.7 million-square-foot mixed-use project known as Grand Avenue Los Angeles ("Project"). The Project is proposed to be located at Bunker Hill Redevelopment Parcel Q ("Parcel Q") at the southern corner of the intersection of South Grand Avenue and West First Street in downtown Los Angeles. The Project cannot proceed under the amended DDA without a series of actions by the Developer, including approval of a memorandum of understanding for an updated subvention agreement by the City of Los Angeles ("City") that was requested by the Developer to help finance the Project's development. The Developer reports to the City that the Project's total costs, inclusive of sunk costs, exceed the projected Project value by about $195.6 million. (This was not without precedent, as the City executed a Funding Agreement with the Developer to help underwrite some costs as part of the prior design for development of Parcel Q that was delayed due to the recession.)

In preparation for the City's evaluation of a funding agreement for the new Project proposed, the City's Office of the Chief Legislative Analyst ("CLA") retained two consultants - Rosenow Spevacek Group, Inc ("RSG") and PKF Consulting USA ("PKF")[1] - to independently assess the need for any assistance. The work was divided by the CLA, with PKF responsible for the hotel component of the project and RSG responsible for the balance of the Project. (PKF's report is contained under separate cover.)

This Report presents our findings on the proposed Project, incorporating PKF's work as well as our own to present our opinions on the following:

- Overall feasibility of the Project,
- The net fiscal impact of the Project to the City and the landowner, the County of Los Angeles ("County"), and
- The total economic impacts, including jobs, within the City and County.

This Report stands as an independent assessment of the overall terms, conditions, and impacts of the Project. The City may use this information to determine if the 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 February 2014. Though refinements to the Project are inevitable at this stage, our conclusions are subject to change should the development program materially be altered.

[1] PKF focused exclusively on the hotel component of the project. The analysis of the hotel component can be reviewed under separate cover.

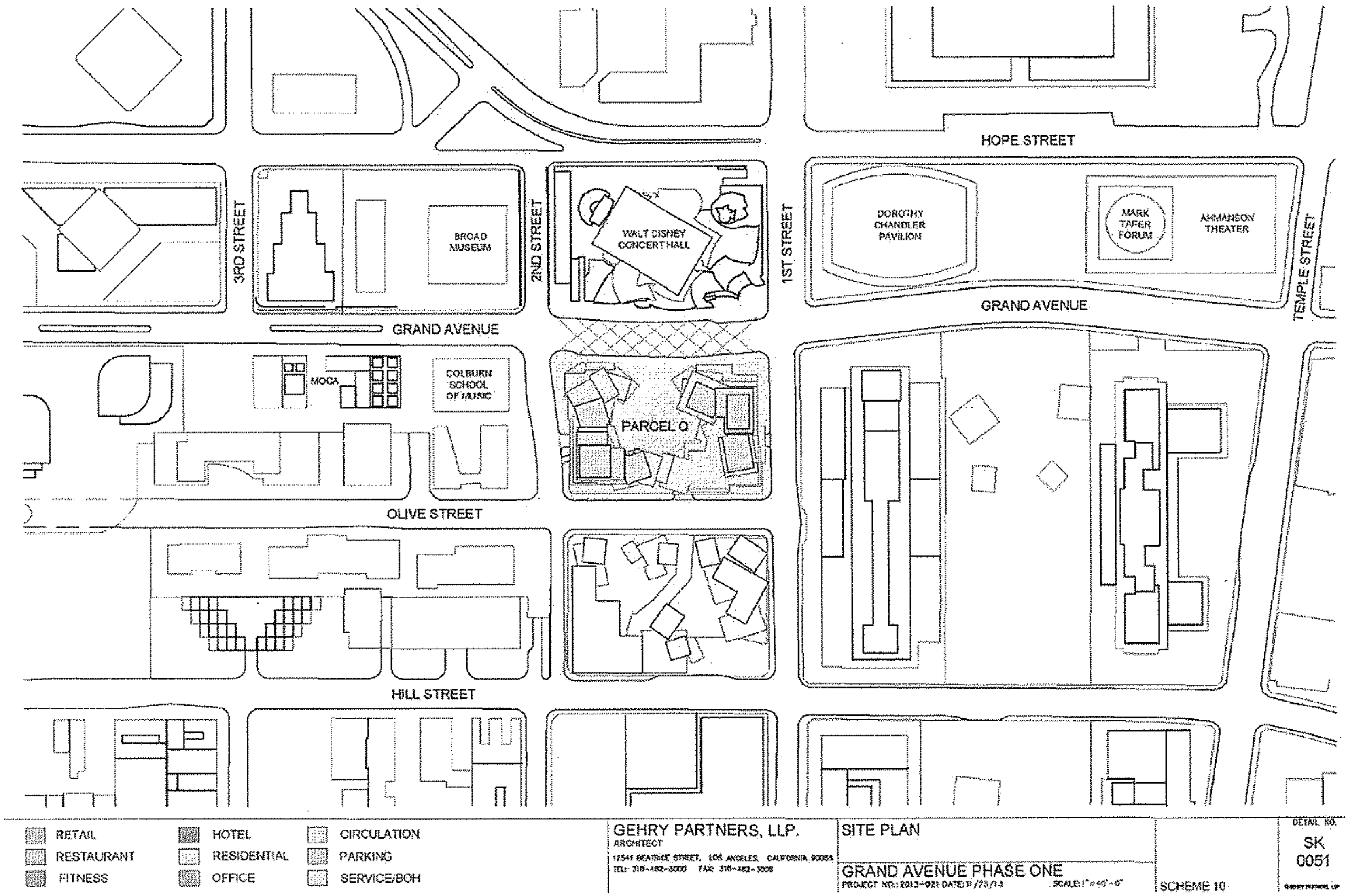

Figure 1: Conceptual Site Plan (January 2014)

EXECUTIVE SUMMARY

The Developer provided RSG a February 20, 2014 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 $195.6 million 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 were separately prepared by the Developer.)

RSG 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>$162.9 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>$138.3 Million (NPV ten percent) Net New Fiscal Impacts</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 3,600 new temporary full-time and part-time jobs directly and the economic activity of operations will generate 1,588 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 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 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	407,234,212	138,341,356	Table 16
50% of Net New Revenue	203,617,106	69,170,678	Table 16
Project Gap		162,900,000	Table 15
Hotel Gap /1		101,300,000	Table 15
Transient Occupancy Tax Revenues	186,366,332	58,201,356	Table 16
Available Subvention Amount is the Lesser of			
50% of Net New Revenue, or		69,170,678	
Hotel Feasibility Gap		101,300,000	
Available Subvention Amount		**69,170,678**	
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, LLC.[2] 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

[2] "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. The 4th Amendment stipulates that the Developer shall receive preliminary approval of an updated Memorandum of Understanding between the City and Developer concerning a parking and hotel tax rebate by the end of July 2014, or the Developer stands to lose all development rights, including the $50 million ground lease payment and any costs incurred to date.

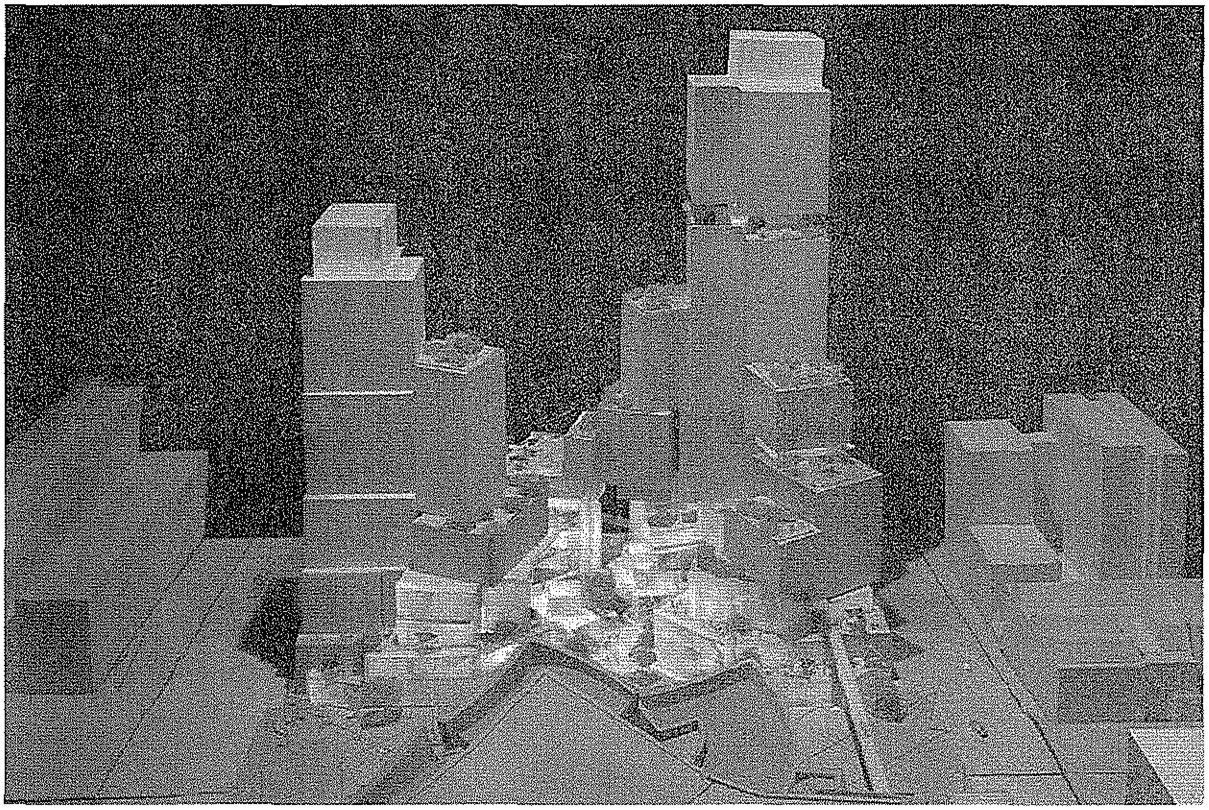

Figure 2: Project Scale Model, Looking South Across Grand Avenue (January 2014)

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. The pro forma analysis identifies the sources and uses of funds to develop the Project. The Developer's specified sources of funds included 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.

Through a detailed valuation of the Project, the Developer determined that there is a $195.6 million development feasibility gap. The Developer did not provide any estimates of fiscal or economic impacts, although RSG received a separate economic and fiscal impact study conducted on the Project (as well as the entire Grand Avenue redevelopment program) prepared by the Los Angeles Economic Development Corporation ("LAEDC") dated January 2014.

PROJECT DESCRIPTION

The Developer is proposing to develop an iconic, 1.7 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 24-story North Tower (nearest First Street) is proposed to include 47,000 square feet of Class "A" office space and a 300-key, four-star luxury hotel and hotel-associated uses.
- The 37-story South Tower includes a proposed 30,000 square foot fitness center on the third and fourth stories, 389 mixed-income apartments on the next 22 stories, and with the 28th through 37th stories containing 67 for-sale condominiums and associated amenities.
- Both towers are topped off with helipads, and sit atop a 1,350-space parking structure and over 215,000 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
Subterranean through Level 4			
Retail		215,751	183,567
Parking	1,350		
Subterranean through Level 4 Subtotal		**215,751**	**183,567**
North Tower			
Hotel	300	318,661	318,661
Office		47,093	43,231
North Tower Subtotal		**365,754**	**361,892**
South Tower			
For-Sale Residential	67	99,915	72,368
For Rent Residential	389	391,536	296,365
South Tower Subtotal		**491,451**	**368,733**
PROJECT TOTAL		**1,072,956**	**914,192**

1/ Where Net SF is not provided, Gross SF acts as a placeholder
Source: The Related Companies

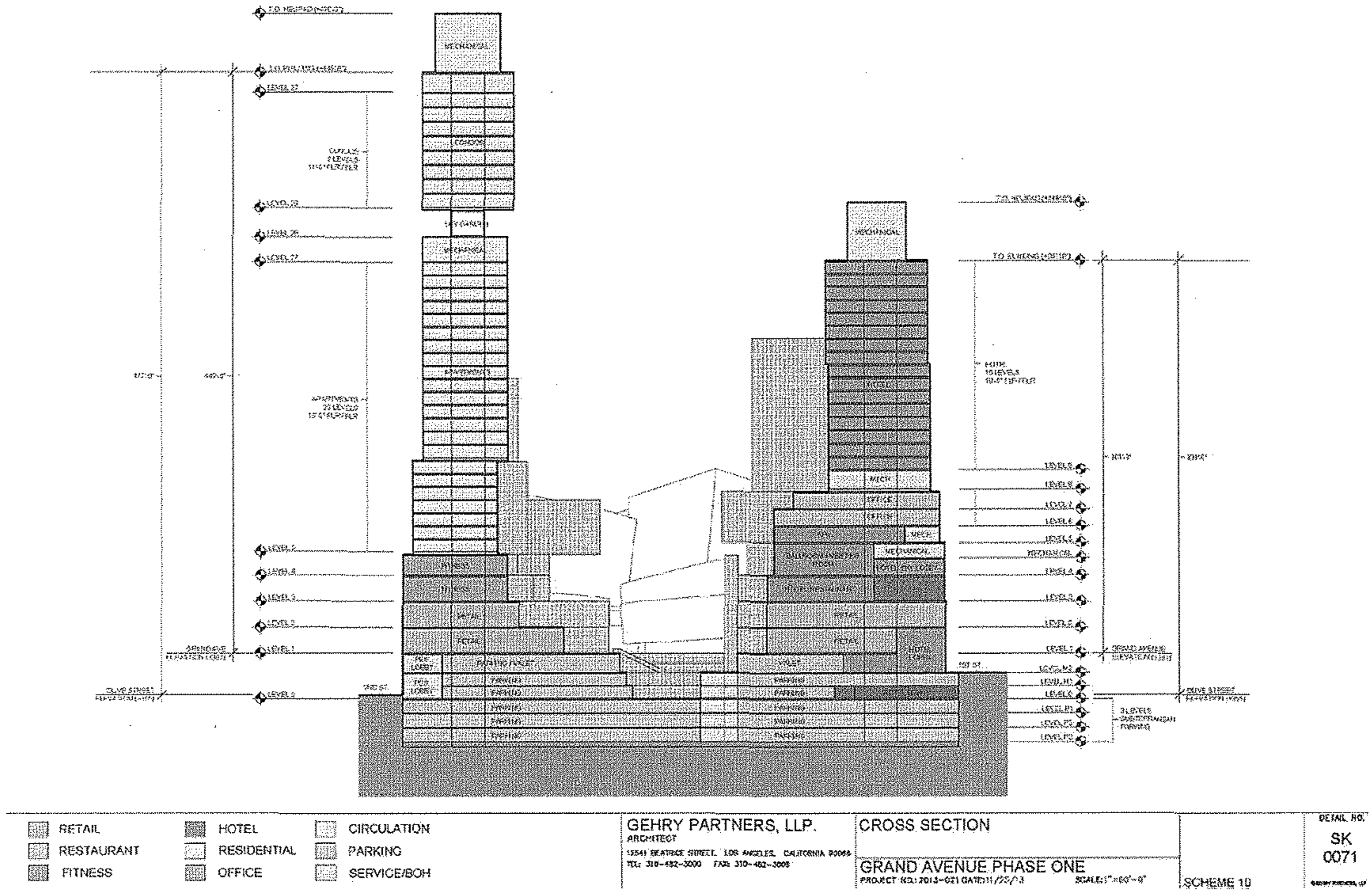

Figure 3: Cross Section, Looking North (January 2014)

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 steel and concrete three-story 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 the PKF Report, connects to West First Street and generally occupies the majority of the North Tower. The hotel contains a lobby, sky lobby, restaurants, meeting space and ballroom, spa, and 300 hotel rooms. The office space is located on Levels 6 and 7 in the North Tower. According to the Developer, the office space is designed to be built out for future occupancy by the Developer and hotel partnership.

The retail space will likely be occupied by apparel and clothing, electronics, home furnishings, health and personal care, and specialty retail uses. According to interviews with the Developer, the mix of retailers that are expected to occupy the Project are anticipated to include luxury retailers as well as other brands not presently found within 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 at a range of price points.

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

The amended DDA obligates the Developer to commence construction by December 31, 2015 and complete the project no later than September 30, 2019. Without achieving these deadlines, the Developer's rights under the DDA are terminated. At this point, the Developer is targeting a 38 month construction process. The following implementation schedule was provided to RSG in February 2014:

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 in 2015 for the purpose of this analysis and 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 **$162.9 million** because development costs exceed the conventional valuation metrics by this amount. The Project, as proposed, is not presently feasible without financial assistance. In 2014 dollars, the Project costs are approximately **$847.1 million**, inclusive of on- and off-site improvements and indirect costs. By comparison, the total value of the Project is approximately **$684.2 million**. The feasibility gap is equivalent to about 19 percent of the construction budget.

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	256,750,000	178,000,000	(78,800,000)
Retail	199,483,000	216,400,000	16,900,000
Office	30,716,000	27,900,000	(2,800,000)
Condo	74,897,000	78,000,000	3,100,000
Hotel /4	285,230,000	183,930,000	(101,300,000)
Total	**847,076,000**	**684,230,000**	**(162,900,000)**

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" and dated March 2014.

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 included 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 of 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 shared the development cost estimates with colleagues within the firm to truth-test the figures, and presented the Draft 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 City 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 10 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 nearly 23 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 on February 14, 2014, March 14, 2014, March 17, 2014, and March 20, 2014;
- Face-to-face coordination and discussion with The Related Companies and SBE Entertainment Group on February 12, 2014 and March 13, 2014 and various phone calls and email coordination;
- Review of the proposed site plan, including building sizes and perimeters, dated November 25, 2013;
- Review of the Developer's multifamily market positioning study, prepared by RCLCo in October 2013.
- Review of the Developer's pro forma analysis, dated February 20, 2014.
- 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;
- Office shell and core;
- 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 total cost of the subterranean parking is $65,270,000, inclusive of only the areas allocated to parking across the six subterranean and mezzanine levels. Costs associated with vertical transportation (elevators, escalators, and stairs), storage, truck loading/unloading dock, security 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 built in appliances, 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. 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	380,437
Load Bearing Roof Square Feet	25,460
Average Perimeter	704
Stories	13
Adjusted Cost per Square Foot	499.10
Adjusted Total Cost	$189,875,000

Sources: The Related Companies, RSG, Marshall Valuation Service

The multifamily development costs are estimated at $189,875,000, inclusive of 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, and circulation elements associated with the multifamily residential.

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	215,751
Average Perimeter	*Varies*
Stories	*Varies*
Adjusted Cost per Square Foot	$733
Adjusted Total Cost	$158,121,000

Sources: The Related Companies, RSG, Marshall Valuation Service

The total cost of the retail component is $158,121,000. 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.

OFFICE SHELL AND CORE

As a means of estimating the office component development costs, RSG utilized office interior finish costs to estimate the interior build out and hotel shell costs for the shell. RSG utilized the hotel shell costs because the office space is integrated with the significantly larger hotel component in the North Tower. RSG expects the architect to specify that, as with the South Tower, the North Tower will have continuity among exterior finishes and construction quality regardless of interior space use – office or hotel.

The costs associated with the office improvements are presented in the following table, after adjusting for building height, floor area, story height, current costs, and local multipliers.

Table 6: Office Cost Assumptions

SQUARE FEET, PERIMETER, STORIES, AND COSTS 100 SOUTH GRAND AVENUE, LOS ANGELES	
Building Square Feet	46,567
Average Perimeter	996
Stories	2
Adjusted Cost per Square Foot	$438
Adjusted Total Cost	$20,401,000

Sources: The Related Companies, RSG, Marshall Valuation Service

The total costs of the office improvements are estimated at $20,401,000. RSG has estimated the costs associated with the office inclusive of shell, core improvements, common areas, lobby space, circulation, and parking improvements.

CONDO SHELL AND CORE

Above the multifamily apartments, there is one level of condominium amenities and then nine levels of for-sale condominiums (which includes one floor of amenities, and one penthouse floor). In accordance with the other components of the Project, the shell for the South Tower is entirely valued as luxury apartment shell construction. The interior improvements for the first eight levels are valued as Class A, good quality luxury apartments. The top floor, Level 37 was evaluated at an additionally inflated construction cost as it contains three penthouse units. 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 7: Condominium Cost Assumptions

SQUARE FEET, PERIMETER, STORIES, AND COSTS 100 SOUTH GRAND AVENUE, LOS ANGELES	
Building Square Feet	99,400
Average Perimeter	428
Stories	9
Adjusted Cost per Square Foot	$586
Adjusted Total Cost	$58,288,000

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 including pool and pool deck. The costs to develop the condominiums are $58,288,000.

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, spa and health center on the first five floors. Floors ten and above will contain the hotel guestrooms. PKF concluded that the total development costs for the Hotel development, including land cost, parking, hard, and soft costs, is $285,230,000. 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 March 2014.

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 $5.5 million.

LEED CONSTRUCTION

Included in the direct hard costs, RSG incorporated a 3 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 minimum LEED inflation factor of 3 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 analyzed the indirect costs of the Project. 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. Fee and permit benchmarks were used to estimate this figure. The benchmarks are $18 per square foot for retail and hotel uses, $17,500 per condominium unit, $20 per square foot for office use, and $10,000 per apartment, plus an estimated $1.94 million CRA Art Fee.

DEVELOPMENT COST SUMMARY

The total applicable development costs associated with the Project, excluding land costs and early planning, design, and entitlements, are estimated at **$847 million**, approximately 13 percent lower than the Developer's estimate. Total development costs are outlined in the table that follows.

Table 8: Development Costs

DEVELOPMENT COST
100 SOUTH GRAND AVENUE, LOS ANGELES

	Multifamily	Retail	Office	Condo	Hotel	Total
	RSG	*RSG*	*RSG*	*RSG*	*PKF*	*RSG/PKF*
COST ESTIMATES /1						
Vertical Construction	171,077,000	131,027,000	15,492,000	51,459,000	187,360,000	556,415,000
Parking	16,788,000	25,984,000	4,669,000	6,319,000	11,510,000	65,270,000
OTHER COSTS /2						
Off Site	2,010,000	1,110,000	240,000	510,000	1,630,000	5,500,000
Subtotal	189,875,000	158,121,000	20,401,000	58,288,000	200,500,000	627,185,000
Land Acquisition	-	-	-	-	-	-
RSG ADJUSTMENTS						
A&E/Special Consultants	4,450,000	2,460,000	-	1,050,000	18,530,000	26,490,000
Insurance/Legal/Accounting	1,400,000	1,980,000	3,700,000	2,360,000	7,590,000	17,030,000
Title/Permits/Fees/Taxes	3,900,000	1,620,000	230,000	780,000	8,120,000	14,650,000
Marketing/Commissions	1,250,000	10,450,000	1,940,000	2,520,000	-	16,160,000
Operating Deficit	1,580,000	2,830,000	250,000	400,000	6,670,000	11,730,000
Overhead Reimb	6,980,000	5,651,000	867,000	2,114,000	8,560,000	24,172,000
Developer's Fee	6,980,000	5,651,000	867,000	2,114,000	8,560,000	24,172,000
Financing Costs	4,700,000	1,820,000	570,000	900,000	2,520,000	10,510,000
Debt Interest Carry	32,450,000	6,930,000	1,400,000	3,580,000	10,100,000	54,460,000
Indirect Contingency	3,185,000	1,970,000	491,000	791,000	14,080,000	20,517,000
Subtotal	66,875,000	41,362,000	10,315,000	16,609,000	84,730,000	219,891,000
Total Costs	256,750,000	199,483,000	30,716,000	74,897,000	285,230,000	847,076,000

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 $50 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 in this Report. However, the Developer recognizes all costs for development of Parcel Q, so their gap analysis would naturally be greater. When the land acquisition and early planning, design, and entitlement costs are included in the development cost estimate, the Project costs would soar to over $950 million.

Aside from these exclusions, RSG also reached a different conclusion in some cases on the costs for each component. In aggregate, these variances are not statistically significant – totaling approximately three percent of the Project cost, but still amount of $24.1 million given the scale of the development program.

After adjusting for the abovementioned exclusions, the Developer estimates the total development cost to be $871.2 million, compared to RSG's cost of $847.1 million. A summary is presented in the table below.

Table 9: Comparison of Development Costs

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

	Multifamily	Retail	Office	Condo	Hotel	Total
	RSG	*RSG*	*RSG*	*RSG*	*PKF*	*RSG/PKF*
Related Project Costs /1	295,020,000	232,980,000	40,500,000	91,000,000	316,210,000	**975,710,000**
Less Land Acquisition /2	(20,030,000)	(10,910,000)	(2,390,000)	(5,060,000)	(16,130,000)	**(54,520,000)**
Less Early Planning, Design & Entitlements /3	(18,240,000)	(10,050,000)	(2,190,000)	(4,650,000)	(14,850,000)	**(49,980,000)**
Revised Related Project Costs /4	256,750,000	212,020,000	35,920,000	81,290,000	285,230,000	**871,210,000**
Variance /5	-	(12,537,000)	(5,204,000)	(6,393,000)	-	**(24,134,000)**
FINAL DEVELOPMENT COSTS /6	**256,750,000**	**199,483,000**	**30,716,000**	**74,897,000**	**285,230,000**	**847,076,000**

1/ Related Project Costs were derived from the Grand Avenue - Parcel Q Draft Pro forma, provided by Related on 2/20/2014

2/ Land Acquisition Costs includes Option Payments, Taxes, Title, and Land Acquisition, as reported by Related 2/20/2014

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: Related, 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 (All but Condominiums): 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 **$684.2 million** primarily based on the discounted cash flow method.

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, retail and office components are presented in the tables at the end of this section.

The assumptions are described below:

- Construction Schedule – RSG utilized a construction schedule generally consistent with the Developer's year-to-year equity outflow during the construction period. Construction costs are inflated by three 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 $4.40 per square foot for market rate multifamily, $1.10 per square foot for affordable multifamily, $5.75 per square foot (triple net) for retail, and $3.50 per square foot (triple net) for office. Multifamily rents are inflated at a rate of three and a half percent per year. Retail and office rents are inflated at a rate of two and a half percent per year.

- 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, retail and office uses. A minor impact on the Project operating income, RSG assumed 97 percent occupancy for the affordable multifamily due to expectation that this Project will have an extensive waiting list.

- 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, 5 percent of gross rent for retail, and 35 percent of gross rent for office. Property taxes are inflated at a rate of two percent per year and other operating expenses are inflated at a rate of three 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), IRR Viewpoint, and PricewaterhouseCoopers. 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 10: Cash Flow and Return on Cost Assumptions

CAPITALIZATION RATE ASSUMPSIONS 100 SOUTH GRAND AVENUE, LOS ANGELES			
	Multifamily	Retail	Office
Unleveraged IRR	6.5%	8.5%	7.5%
Going-In Cap	4.5%	6.5%	5.5%
Spread on IRR (bp)	*200*	*200*	*200*
Exit Cap	5.3%	7.0%	6.3%
Spread to Exit Cap (bp)	*75*	*50*	*75*
Selling Expense	2.0%	2.0%	2.0%

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 would be presold and occupied immediately after completion, with the balance of the condominiums sold within the first year. Overall, this translates to sales of about six per month.

- Average Sales Price Per Square Foot – RSG estimates that the average sales prices of comparable, high-rise units suggest a 2014 pricing averaging $1,100 per square foot. This figure was inflated annually by 3 percent per year.

- Sales Expenses – While some marketing costs are included in the development budget itself, RSG estimated that the variable cost of sales for each unit is approximately 2 percent of gross sales.

Table 11: Multifamily Projected Cash Flow and Return on Cost

MULTIFAMILY COMPONENT
100 SOUTH GRAND AVENUE, LOS ANGELES

	Present Value	- 1 -	- 2 -	- 3 -	- 4 -	- 5 -	- 6 -	- 7 -	- 8 -	- 9 -	- 10 -	- 11 -	- 12 -	- 13 -	- 14 -
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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Land Investment	-	-	-												
Construction Cost	256,750,000	25,675,000	51,350,000	89,862,500	89,862,500	-	-	-	-	-	-	-	-	-	-
Construction % By Year /1		10.0%	20.0%	35.0%	35.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.00%
Inflation @ 3.0% /2	23,508,680	770,250	3,127,215	8,332,680	11,278,535	-	-	-	-	-	-	-	-	-	-
Inflated Construction Cost	280,258,680	26,445,250	54,477,215	98,195,180	101,141,035	-	-	-	-	-	-	-	-	-	-
Total Investment	280,258,680	26,445,250	54,477,215	98,195,180	101,141,035	-	-	-	-	-	-	-	-	-	-
Cost Excl Inf. (rounded)	256,800,000														
Gross Income															
Gross Rental Income (Market Rate)															
Leaseable SF	234,920														
Occupancy Rate	70.0% / 97.0%	0.0%	0.0%	0.0%	70.0%	90.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%
Occupied SF	227,872	-	-	-	164,444	211,428	227,872	227,872	227,872	227,872	227,872	227,872	227,872	227,872	227,872
Rent Rate/sf	4.40	4.55	4.71	4.88	5.05	5.23	5.41	5.60	5.79	6.00	6.21	6.42	6.65	6.88	7.12
Average Gross Rent	12,031,663	-	-	-	9,963,533	13,258,615	14,789,985	15,307,635	15,843,402	16,397,921	16,971,849	17,565,863	18,180,668	18,816,992	19,475,587
Gross Rental Income (BMR)															
Leaseable SF	61,216														
Occupancy Rate	70.0% / 97.0%	0.0%	0.0%	0.0%	70.0%	90.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%
Occupied SF	59,380	-	-	-	42,851	55,094	59,380	59,380	59,380	59,380	59,380	59,380	59,380	59,380	59,380
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	783,810	-	-	-	600,345	783,451	857,051	869,907	882,956	896,200	909,643	923,288	937,137	951,194	965,462
Other Revenue /3															
Parking Revenues	724,008	-	-	-	570,414	755,391	838,568	863,725	889,637	916,326	943,816	972,131	1,001,294	1,031,333	1,062,273
Valet, Misc	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Revenue	724,008	-	-	-	570,414	755,391	838,568	863,725	889,637	916,326	943,816	972,131	1,001,294	1,031,333	1,062,273
Effective Gross Income	13,539,480	-	-	-	11,134,292	14,797,457	16,485,605	17,041,268	17,615,995	18,210,448	18,825,308	19,461,281	20,119,100	20,799,519	21,503,322
Expenses															
Property Taxes @ $6,000/unit /4	2,334,000	-	-	-	2,356,992	2,404,132	2,452,214	2,501,258	2,551,284	2,602,309	2,654,355	2,707,443	2,761,591	2,816,823	2,873,160
Op Ex @ $8,000/unit ($8.17/sf)	3,200,000	-	-	-	3,601,628	3,709,677	3,820,967	3,935,596	4,053,664	4,175,274	4,300,532	4,429,548	4,562,435	4,699,308	4,840,287
Total Expenses	5,534,000		-	-	5,958,620	6,113,809	6,273,182	6,436,855	6,604,948	6,777,583	6,954,888	7,136,991	7,324,026	7,516,131	7,713,447
NET OPERATING INCOME	8,005,480	-	-	-	5,175,672	8,683,649	10,212,424	10,604,413	11,011,047	11,432,864	11,870,420	12,324,291	12,795,074	13,283,388	13,789,875
Feasibility Analyses															
Yr 10 Reversion @ 5.25% Cap & 2.0% Sales Cost															267,200,000
NOI + Net Reversion		-	-	-	5,175,672	8,683,649	10,212,424	10,604,413	11,011,047	11,432,864	11,870,420	12,324,291	12,795,074	13,283,388	280,989,875
DCF @ 6.50% NPV	178,000,000														
Surplus/ (Gap)	(78,800,000)														
Cost + NOI+ Net Reversion		(26,445,250)	(54,477,215)	(98,195,180)	(95,965,363)	8,683,649	10,212,424	10,604,413	11,011,047	11,432,864	11,870,420	12,324,291	12,795,074	13,283,388	280,989,875

1/ RSG assumption, subject to receipt and review of development calendar from Related Cos.
2/ ENR, Year Ending February 2014
3/ Estimated by RSG, subject to receipt abd review of additional information from Related Cos.
4/ Assumes 1.224% property tax rate (as of 2013-14).

RSG

Table 12: Retail Projected Cash Flow and Return on Cost

RETAIL COMPONENT
100 SOUTH GRAND AVENUE, LOS ANGELES

	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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Land Investment	-	-	-												
Construction Cost	199,483,000	19,948,300	39,896,600	69,819,050	69,819,050	-	-	-	-	-	-	-	-	-	-
Construction % By Year /1		10.0%	20.0%	35.0%	35.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.00%
Inflation @ 3.0% /2	18,265,169	598,449	2,429,703	6,474,111	8,762,906	-	-	-	-	-	-	-	-	-	-
Inflated Construction Cost	217,748,169	20,546,749	42,326,303	76,293,161	78,581,956	-	-	-	-	-	-	-	-	-	-
Total Investment	217,748,169	20,546,749	42,326,303	76,293,161	78,581,956	-	-	-	-	-	-	-	-	-	-
Cost Excl Inf. (rounded)	199,500,000														
Gross Income															
Gross Rental Income															
Leaseable SF	183,567														
Occupancy Rate	70.0% / 97.0%	0.0%	0.0%	0.0%	70.0%	90.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%
Occupied SF	178,060	-	-	-	128,497	165,210	178,060	178,060	178,060	178,060	178,060	178,060	178,060	178,060	178,060
Rent Rate/sf	5.75				6.51	6.51	6.51	6.51	6.51	7.37	7.37	7.37	7.37	7.37	8.34
Average Gross Rent	12,286,139	-	-	-	10,038,178	12,906,229	13,910,046	13,910,046	13,910,046	15,747,626	15,747,626	15,747,626	15,747,626	15,747,626	17,820,244
Other Revenue /3															
Parking Revenues	3,795,288	-	-	-	2,990,141	3,959,801	4,395,819	4,527,694	4,663,525	4,803,430	4,947,533	5,095,959	5,248,838	5,406,303	5,568,492
Vending/Events	200,000	-	-	-	157,571	208,669	231,646	238,596	245,753	253,126	260,720	268,541	276,598	284,896	293,442
PM/Media/Advertising	750,000	-	-	-	590,892	782,510	868,673	894,733	921,575	949,222	977,699	1,007,030	1,037,241	1,068,358	1,100,409
Valet, Misc	250,000	-	-	-	196,964	260,837	289,558	298,244	307,192	316,407	325,900	335,677	345,747	356,119	366,803
Total Other Revenue	4,995,288	-	-	-	3,935,568	5,211,817	5,785,696	5,959,267	6,138,045	6,322,186	6,511,852	6,707,207	6,908,424	7,115,676	7,329,147
Expense Recoveries															
CAM @ $0.50 psf /4	1,101,402	-	-	-	867,746	1,149,144	1,275,678	1,313,948	1,353,366	1,393,967	1,435,786	1,478,860	1,523,226	1,568,923	1,615,990
Effective Gross Income	18,382,829	-	-	-	14,841,493	19,267,190	20,971,420	21,183,261	21,401,458	23,463,779	23,695,264	23,933,693	24,179,275	24,432,224	26,765,381
Expenses															
CAM	1,101,402	-	-	-	867,746	1,149,144	1,275,678	1,313,948	1,353,366	1,393,967	1,435,786	1,478,860	1,523,226	1,568,923	1,615,990
Management @ 5.0%/ ($0.24/sf)	614,307	-	-	-	501,909	645,311	695,502	695,502	695,502	787,381	787,381	787,381	787,381	787,381	891,012
Total Expenses	1,715,709		-	-	1,369,655	1,794,456	1,971,180	2,009,450	2,048,869	2,181,349	2,223,168	2,266,241	2,310,607	2,356,304	2,507,002
NET OPERATING INCOME	16,667,120	-	-	-	13,471,837	17,472,734	19,000,240	19,173,811	19,352,589	21,282,431	21,472,096	21,667,452	21,868,668	22,075,921	24,258,378
Feasibility Analyses															
Yr 10 Reversion @ 7.00% Cap & 2.0% Sales Cost															342,700,000
NOI + Net Reversion		-	-	-	13,471,837	17,472,734	19,000,240	19,173,811	19,352,589	21,282,431	21,472,096	21,667,452	21,868,668	22,075,921	366,958,378
DCF @ 8.50% NPV	$ 215,400,000														
Surplus/ (Gap)	15,900,000														
Cost + NOI+ Net Reversion		(20,546,749)	(42,326,303)	(76,293,161)	(65,110,118)	17,472,734	19,000,240	19,173,811	19,352,589	21,282,431	21,472,096	21,667,452	21,868,668	22,075,921	366,958,378

1/ RSG assumption, subject to receipt and review of development calendar from Related Cos.
2/ ENR, Year Ending February 2014
3/ Estimated by RSG, subject to receipt abd 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 13: Office Projected Cash Flow and Return on Cost

OFFICE COMPONENT
100 SOUTH GRAND AVENUE, LOS ANGELES

	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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Land Investment	-	-	-												
Construction Cost	30,716,000	3,071,600	6,143,200	10,750,600	10,750,600	-	-	-	-	-	-	-	-	-	-
Construction % By Year /1		10.0%	20.0%	35.0%	35.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.00%
Inflation @ 3.0% /2	2,812,435	92,148	374,121	996,871	1,349,295	-	-	-	-	-	-	-	-	-	-
Inflated Construction Cost	33,528,435	3,163,748	6,517,321	11,747,471	12,099,895	-	-	-	-	-	-	-	-	-	-
Total Investment	33,528,435	3,163,748	6,517,321	11,747,471	12,099,895	-	-	-	-	-	-	-	-	-	-
Cost Excl Inf. (rounded)	30,700,000														
Gross Income															
Gross Rental Income															
Leaseable SF	43,231														
Occupancy Rate	70.0% / 97.0%	0.0%	0.0%	0.0%	70.0%	90.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%
Occupied SF	41,934	-	-	-	30,262	38,908	41,934	41,934	41,934	41,934	41,934	41,934	41,934	41,934	41,934
Rent Rate/sf	3.50				3.96	3.96	3.96	3.96	3.96	4.48	4.48	4.48	4.48	4.48	5.07
Average Gross Rent	1,761,231	-	-	-	1,438,036	1,848,903	1,992,707	1,992,707	1,992,707	2,254,376	2,254,376	2,254,376	2,254,376	2,254,376	2,551,269
Other Revenue /3															
Parking Revenues	681,912	-	-	-	537,249	711,471	789,811	813,506	837,911	863,048	888,940	915,608	943,076	971,368	1,000,509
Vending/Events	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PM/Media/Advertising	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valet, Misc	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Revenue	681,912	-	-	-	537,249	711,471	789,811	813,506	837,911	863,048	888,940	915,608	943,076	971,368	1,000,509
Expense Recoveries															
CAM @ $0.50 psf /4	259,386	-	-	-	204,359	270,630	300,429	309,442	318,725	328,287	338,135	348,279	358,728	369,490	380,574
Effective Gross Income	2,702,529	-	-	-	2,179,643	2,831,004	3,082,947	3,115,654	3,149,343	3,445,711	3,481,451	3,518,263	3,556,179	3,595,234	3,932,353
Expenses															
CAM	259,386	-	-	-	204,359	270,630	300,429	309,442	318,725	328,287	338,135	348,279	358,728	369,490	380,574
Oper Exp @ 35.0%/ ($13.09/sf/yr)	616,431	-	-	-	503,313	647,116	697,447	697,447	697,447	789,031	789,031	789,031	789,031	789,031	892,944
Total Expenses	875,817		-	-	707,671	917,746	997,876	1,006,889	1,016,172	1,117,318	1,127,167	1,137,311	1,147,759	1,158,521	1,273,518
NET OPERATING INCOME	1,826,712	-	-	-	1,471,972	1,913,258	2,085,071	2,108,765	2,133,171	2,328,392	2,354,284	2,380,952	2,408,420	2,436,713	2,658,834
Feasibility Analyses															
Yr 10 Reversion @ 6.25% Cap & 2.0% Sales Cost															42,200,000
NOI + Net Reversion		-	-	-	1,471,972	1,913,258	2,085,071	2,108,765	2,133,171	2,328,392	2,354,284	2,380,952	2,408,420	2,436,713	44,858,834
DCF @ 7.50% NPV	$ 27,900,000														
Surplus/ (Gap)	(2,800,000)														
Cost + NOI+ Net Reversion		(3,163,748)	(6,517,321)	(11,747,471)	(10,627,923)	1,913,258	2,085,071	2,108,765	2,133,171	2,328,392	2,354,284	2,380,952	2,408,420	2,436,713	44,858,834

1/ RSG assumption, subject to receipt and review of development calendar from Related Cos.
2/ ENR, Year Ending February 2014
3/ Estimated by RSG, subject to receipt abd 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 14: 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Land Investment	-	-	-												
Construction Cost	74,897,000	7,489,700	14,979,400	26,213,950	26,213,950	-	-	-	-	-	-	-	-	-	-
Construction % By Year /1		10.0%	20.0%	35.0%	35.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.00%
Inflation @ 3.0% /2	6,857,759	224,691	912,245	2,430,741	3,290,082	-	-	-	-	-	-	-	-	-	-
Inflated Construction Cost	81,754,759	7,714,391	15,891,645	28,644,691	29,504,032	-	-	-	-	-	-	-	-	-	-
Total Investment	81,754,759	7,714,391	15,891,645	28,644,691	29,504,032	-	-	-	-	-	-	-	-	-	-
Cost Excl Inf. (rounded)	74,900,000														
Sales Proceeds															
Gross Sales															
Salable SF	72,368														
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	72,368	-	-	-	18,092	72,368	72,368	72,368	72,368	-	-	-	-	-	-
Sale Price/sf	1,100.00	1,138.50	1,178.35	1,219.59	1,262.28	1,306.45	1,352.18	1,399.51	1,448.49	1,499.19	1,551.66	1,605.97	1,662.18	1,720.35	1,780.56
Total Sale Price	79,604,800	-	-	-	22,837,085	70,909,148	-	-	-	-	-	-	-	-	-
Less Cost of Sale	(1,592,096)	-	-	-	(456,742)	(1,418,183)	-	-	-	-	-	-	-	-	-
Net Sales Proceeds	78,012,704	-	-	-	22,380,343	69,490,965	-	-	-	-	-	-	-	-	-

Feasibility Analyses

Net Proceeds	$	78,000,000
Surplus/ (Gap)		3,100,000

1/ RSG assumption, subject to receipt and review of development calendar from Related Cos.
2/ ENR, Year Ending February 2014

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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 **$684.2 million**. When combined with the Project development costs of **$847.1 million**, the expected Project feasibility gap is **$162.9 million**.

A summary is presented below by land use.

Table 15: Development Feasibility and Gap

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

	Multifamily	Retail	Office	Condo	Hotel	Total
	RSG	*RSG*	*RSG*	*RSG*	*PKF*	*RSG/PKF*
Final Development Costs /1	$ 256,750,000	$ 199,483,000	$ 30,716,000	$ 74,897,000	$ 285,230,000	**$ 847,076,000**
Valuation /2	$ 178,000,000	$ 216,400,000	$ 27,900,000	$ 78,000,000	$ 183,930,000	**$ 684,230,000**
Gap /3	**$ (78,800,000)**	**$ 16,900,000**	**$ (2,800,000)**	**$ 3,100,000**	**$ (101,300,000)**	**$ (162,900,000)**

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

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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.[3]

FISCAL IMPACT SUMMARY

The net new tax revenue presented in all fiscal impact revenue projections begins with "Construction Year One" in 2015 and ends in 2043, a 25-year term beginning in the first year of operations in addition to a four-year construction period. It is estimated that the Project will generate **$62.9 million** in tax revenue from certain sources (25-year discounted net present value at ten percent represented as 2018 dollars) and **$75.4 million** (NPV ten percent) in tax revenue from other sources through 2043, a total of **$138.3 million** (NPV ten percent).

Table 16 provides a summary by revenue source of the total net new revenues for the City and County over the 25-year period.

[3] 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 16: 25 Year Fiscal Impact Projections Summary

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	$ 186,092,212	$ 58,201,356	$ -	$ -	19
Parking Occupancy Tax, Years 1-10	7,866,000	4,723,000	-	-	24
Subtotal	$ 193,958,212	$ 62,924,356	$ -	$ -	
Property Taxes	$ 90,230,000	$ 34,243,000	$ 83,983,000	$ 31,872,000	20
Sales Tax and In-Lieu Sales Tax Revenue	53,527,000	16,920,000	-	-	21
Motor Vehicle License Fees and Property Tax In-Lieu	25,012,000	9,493,000	-	-	22
Gross Receipts Tax	14,047,000	4,423,000	-	-	23
Parking Occupancy Tax, Years 11-25	17,153,000	3,185,000	-	-	25
Utility User's Tax	7,616,000	2,408,000	-	-	26
Real Property Transfer Tax	1,305,000	386,000	318,000	94,000	27
Construction Materials Sales Tax	3,081,000	3,081,000	-	-	28
Contrsuction Gross Receipts Tax	911,000	911,000	-	-	29
Initial Property Transfer Tax	394,000	367,000	97,000	90,000	30
Subtotal	$ 213,276,000	$ 75,417,000	$ 84,398,000	$ 32,056,000	
NET NEW REVENUE TOTAL	$ 407,234,212	$ 138,341,356	$ 84,398,000	$ 32,056,000	

As described in the prior section, PKF has established a hotel gap of $101.3 million. According to the Developer, 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 hotel gap of $101.3 million.

TAX REVENUES

The Project's implementation schedule estimates that it will take approximately four years to complete construction.[4] It is anticipated that construction of the Project will begin and reach 5.6 percent completion in 2015, reach 57.7 percent completion in 2016, reach 95.7 percent completion in 2017, reach 100 percent completion in 2018, and begin operations on all components in 2018.

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 Fire Department and the County's Flood Control District, as well as other entities operating in the County, such as the Los Angeles County Metropolitan Transportation Authority (which receives 1.5 percent of all taxable sales, equal to 150 percent of the City's share).

[4] Based on year-to-year equity outflow, as described by the Developer.

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 17 and Table 18, on the following pages, summarize the tax revenues projected for the City and County, respectively.

Table 17: 25 Year Fiscal Impact Projections for City

25 YEAR FISCAL IMPACT PROJECTIONS
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**
	2014											
CY 1	2015	$ -	$ 136,000	$ -	$ 38,000	$ -	$ -	$ -	$ -	$ -	$ 377,000	$ 551,000
CY 2	2016	-	1,420,000	-	394,000	-	-	-	-	-	776,000	2,590,000
CY 3	2017	-	2,405,000	-	667,000	-	-	-	-	-	1,398,000	4,470,000
CY 4	2018	-	2,562,000	-	710,000	-	-	-	-	-	1,538,000	4,810,000
1	2019	4,378,220	2,613,000	1,468,000	724,000	367,000	686,000	-	209,000	-	297,000	10,742,220
2	2020	4,955,860	2,666,000	1,512,000	739,000	391,000	707,000	-	215,000	15,000	-	11,200,860
3	2021	5,440,960	2,719,000	1,558,000	754,000	408,000	728,000	-	222,000	30,000	-	11,859,960
4	2022	5,604,060	2,773,000	1,604,000	769,000	421,000	750,000	-	228,000	46,000	-	12,195,060
5	2023	5,778,780	2,829,000	1,652,000	784,000	434,000	772,000	-	235,000	47,000	-	12,531,780
6	2024	5,953,500	2,885,000	1,702,000	800,000	447,000	796,000	-	242,000	48,000	-	12,873,500
7	2025	6,128,360	2,943,000	1,753,000	816,000	460,000	819,000	-	249,000	49,000	-	13,217,360
8	2026	6,314,700	3,002,000	1,806,000	832,000	474,000	844,000	-	257,000	50,000	-	13,579,700
9	2027	6,501,180	3,062,000	1,860,000	849,000	488,000	869,000	-	265,000	51,000	-	13,945,180
10	2028	6,699,280	3,123,000	1,916,000	866,000	503,000	895,000	-	273,000	52,000	-	14,327,280
11	2029	6,900,258	3,186,000	1,973,000	883,000	518,000	-	922,000	281,000	53,000	-	14,716,258
12	2030	7,107,266	3,250,000	2,032,000	901,000	534,000	-	950,000	289,000	54,000	-	15,117,266
13	2031	7,320,484	3,314,000	2,093,000	919,000	550,000	-	979,000	298,000	55,000	-	15,528,484
14	2032	7,540,099	3,381,000	2,156,000	937,000	567,000	-	1,008,000	307,000	56,000	-	15,952,099
15	2033	7,766,302	3,448,000	2,221,000	956,000	584,000	-	1,038,000	316,000	57,000	-	16,386,302
16	2034	7,999,291	3,517,000	2,287,000	975,000	601,000	-	1,069,000	325,000	59,000	-	16,832,291
17	2035	8,239,269	3,588,000	2,356,000	994,000	620,000	-	1,101,000	335,000	60,000	-	17,293,269
18	2036	8,486,447	3,659,000	2,427,000	1,014,000	638,000	-	1,134,000	345,000	61,000	-	17,764,447
19	2037	8,741,041	3,733,000	2,499,000	1,035,000	658,000	-	1,168,000	356,000	62,000	-	18,252,041
20	2038	9,003,272	3,807,000	2,574,000	1,055,000	677,000	-	1,203,000	366,000	63,000	-	18,748,272
21	2039	9,273,370	3,883,000	2,652,000	1,076,000	698,000	-	1,240,000	377,000	65,000	-	19,264,370
22	2040	9,551,571	3,961,000	2,731,000	1,098,000	719,000	-	1,277,000	389,000	66,000	-	19,792,571
23	2041	9,838,119	4,040,000	2,813,000	1,120,000	741,000	-	1,315,000	400,000	67,000	-	20,334,119
24	2042	10,133,262	4,121,000	2,898,000	1,142,000	763,000	-	1,354,000	412,000	69,000	-	20,892,262
25	2043	10,437,260	4,204,000	2,984,000	1,165,000	786,000	-	1,395,000	425,000	70,000	-	21,466,260
Total		$ 186,092,212	$ 90,230,000	$ 53,527,000	$ 25,012,000	$ 14,047,000	$ 7,866,000	$ 17,153,000	$ 7,616,000	$ 1,305,000	$ 4,386,000	$ 407,234,212
NPV	10%	$ 58,201,356	$ 34,243,000	$ 16,920,000	$ 9,493,000	$ 4,423,000	$ 4,723,000	$ 3,185,000	$ 2,408,000	$ 386,000	$ 4,359,000	**$ 138,341,356**

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Table 18: 25 Year Fiscal Impact Projections for County

25 YEAR FISCAL IMPACT PROJECTIONS **TABLE 7-C**
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**
	2014				
CY 1	2015	$ 126,000	$ -	$ -	$ 126,000
CY 2	2016	1,322,000	-	-	1,322,000
CY 3	2017	2,238,000	-	-	2,238,000
CY 4	2018	2,385,000	-	24,000	2,409,000
1	2019	2,432,000	-	73,000	2,505,000
2	2020	2,481,000	4,000	-	2,485,000
3	2021	2,531,000	7,000	-	2,538,000
4	2022	2,581,000	11,000	-	2,592,000
5	2023	2,633,000	12,000	-	2,645,000
6	2024	2,686,000	12,000	-	2,698,000
7	2025	2,739,000	12,000	-	2,751,000
8	2026	2,794,000	12,000	-	2,806,000
9	2027	2,850,000	12,000	-	2,862,000
10	2028	2,907,000	13,000	-	2,920,000
11	2029	2,965,000	13,000	-	2,978,000
12	2030	3,024,000	13,000	-	3,037,000
13	2031	3,085,000	13,000	-	3,098,000
14	2032	3,147,000	14,000	-	3,161,000
15	2033	3,210,000	14,000	-	3,224,000
16	2034	3,274,000	14,000	-	3,288,000
17	2035	3,339,000	15,000	-	3,354,000
18	2036	3,406,000	15,000	-	3,421,000
19	2037	3,474,000	15,000	-	3,489,000
20	2038	3,544,000	15,000	-	3,559,000
21	2039	3,614,000	16,000	-	3,630,000
22	2040	3,687,000	16,000	-	3,703,000
23	2041	3,761,000	16,000	-	3,777,000
24	2042	3,836,000	17,000	-	3,853,000
25	2043	3,912,000	17,000	-	3,929,000
Total		$ 83,983,000	$ 318,000	$ 97,000	$ 84,398,000
NPV	10%	$ 31,872,000	$ 94,000	$ 90,000	**$ 32,056,000**

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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 hotel to occupy parts of 22 stories in the North Tower and provide 300 guest rooms, 23,180 square feet of indoor meeting and event space, and 35,000 square feet of outdoor space.

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 109,500 available annual rooms (the number of rooms multiplied by the number of days per year). According to PKF, occupancy rates will increase from 68 to 76 percent between 2019 and 2021, stabilizing thereafter at 76 percent. The market supports an average daily room rate (ADR) of $380 in 2014. PKF projects ADR to increase to $420 in 2019, $449 in 2020, $467 in 2021, and a 3 percent annual inflation after that.

The Project is expected to generate over $5,400,000 per year once occupancy stabilizes in 2021, and approximately $58.2 million over the 25-year projection period (2018 dollars). Table 19 shows the transient occupancy tax expected from the hotel component of the Project.

Table 19: 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	2019	$ 420	68%	$ 31,273,000	$ 4,378,220
2	2020	449	72%	35,399,000	$ 4,955,860
3	2021	467	76%	38,864,000	$ 5,440,960
4	2022	481	76%	40,029,000	$ 5,604,060
5	2023	496	76%	41,277,000	$ 5,778,780
6	2024	511	76%	42,525,000	$ 5,953,500
7	2025	526	76%	43,774,000	$ 6,128,360
8	2026	542	76%	45,105,000	$ 6,314,700
9	2027	558	76%	46,437,000	$ 6,501,180
10	2028	575	76%	47,852,000	$ 6,699,280
11	2029	592	76%	49,287,557	$ 6,900,258
12	2030	610	76%	50,766,186	$ 7,107,266
13	2031	628	76%	52,289,171	$ 7,320,484
14	2032	647	76%	53,857,850	$ 7,540,099
15	2033	667	76%	55,473,586	$ 7,766,302
16	2034	687	76%	57,137,793	$ 7,999,291
17	2035	707	76%	58,851,921	$ 8,239,269
18	2036	728	76%	60,617,479	$ 8,486,447
19	2037	750	76%	62,436,007	$ 8,741,041
20	2038	773	76%	64,309,086	$ 9,003,272
21	2039	796	76%	66,238,357	$ 9,273,370
22	2040	820	76%	68,225,507	$ 9,551,571
23	2041	844	76%	70,272,279	$ 9,838,119
24	2042	870	76%	72,380,443	$ 10,133,262
25	2043	896	76%	74,551,857	$ 10,437,260
Total					$ 186,092,211
NPV	10%				**$58,201,356**

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 2013-14 property taxes within the Project is approximately 32.7 percent of the general one percent property tax levy. Due to voter-approved indebtedness, the City receives an additional 2.98 percent of property tax in addition to the general levy. The County's General Fund share of the 2013-14 property taxes within the Project is approximately 42.8 percent of the general one percent property tax levy.

The estimated development cost for the Project is $847,076,000 (2014 dollars). This excludes the cost of land acquisition. Since the land is subject to property taxes regardless of whether the Project is built, it is excluded from the property tax calculations in this Report. Based on the development cost, the City is expected to receive approximately $2.6 million in property tax revenues at the completion of construction in 2018, which, applying the maximum Proposition 13 inflation rate, will increase 2 percent annually. All together, the City is expected to collect over $34.2 million (2018 dollars) in property tax revenues through 2043.

The County would receive approximately $2.4 million in property tax revenues in 2018. Increasing at 2 percent annually, property tax revenues for the County would total almost $31.9 million (2018 dollars) through 2043. RSG's forecast of these property tax revenues for the City and County is presented below in Table 20.

Table 20: Property Tax Revenue

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
2018	$ 916,902,000	$ 9,169,020	0.279442668	$ 2,562,000	0.260088465	$ 2,385,000
Total, 2014-2043				90,230,000		83,983,000
NPV, 10%				**34,243,000**		**31,872,000**

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

One out of the nine percent sales tax levied in the City by the State of California[5] is returned to the jurisdiction where the sales tax originated in what is referred to as the "situs rule." On March 2, 2004, the state electorate approved Proposition 57, which, in part, mandates the exchange of one-quarter (0.25 percent) of the previous 1.00 percent sales tax revenues to local municipalities for an equal amount of property tax revenues. These additional property tax revenues are referred to as "in-lieu sales taxes" or "triple flip revenue", and took effect on July 1, 2004; they continue until the state deficit bailout bonds are paid off in approximately 10 years, after which time it is presumed that in-lieu sales taxes would revert back to local municipalities as sales tax revenue.

According to the Developer, the Project's retail space will include 86,971 square feet of retail space, 3,888 square feet of specialty retail space, 39,617 square feet of restaurant space, and a 35,060-square-foot fitness 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.

Using the Developer's sales per square foot estimates, the net new revenue generated by sales tax is expected to be $1,468,000 in 2019, increasing by 3 percent each year. Through 2043, the

[5] www.boe.ca.gov

City is expected to receive close to $16.9 million in sales tax revenues (2018 dollars). Sales Tax Revenue is split by retail category and summarized in Table 21.

Table 21: 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	82,622	100%	$ 869	$ 718,000
Specialty Retail	3,694	100%	869	32,000
Restaurants	37,636	100%	927	349,000
Hotel Restaurants	13,300	100%	1,071	142,000
Fitness Center	33,307	10%	64	21,000
	Number of Rooms		Taxable Sales per Occupied Room	City Share of Annual Sales Tax
Room Service	300		$ 246	$ 205,000
Total, 2019				$ 1,467,000
Total, 2014-2043				53,527,000
NPV, 10%				**16,920,000**

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 $847,076,000 (2014 dollars, see the subsection on Property Taxes above) and will generate approximately $710,000 in estimated In-Lieu VLF revenues at build-out. RSG applied a 2 percent growth rate to match the growth in Assessed Value. As depicted in Table 22, the City is expected to receive nearly $9.5 million in In-Lieu VLF revenues (2018 dollars) through 2043.

Table 22: 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
2018	$ 916,902,000	0.0775%	$ 710,000
Total, 2014-2043			25,012,000
NPV, 10%			**9,493,000**

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[6] outlines the commercial categories and rates at which business taxes are imposed. The four categories critical to the analysis of recurring Gross Receipts Tax are Retail Sales (Section 21.44 of the Business Tax Ordinance), Professions and Occupations Businesses (Section 21.49 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 23 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 $367,000 in 2019, the first full year of operation. Assuming an annual inflation rate of 3 percent, total gross receipts tax revenues are expected to reach $4.4 million (2018 dollars) through 2043, as shown in Table 23.

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

Table 23: 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	$ 71,837,000	$ 1.27	$ 91,000
Specialty Retail	3,211,000	1.27	4,000
Restaurants	34,904,000	1.27	44,000
Fitness Center	21,237,000	5.07	108,000
Hotel	62,620,000	1.27	80,000
Apartments	14,781,882	1.27	19,000
Commercial Property Rental	16,871,000	1.27	21,000
Total, 2019			$ 367,000
Total, 2014-2043			14,047,000
NPV, 10%			**4,423,000**

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 860 non-residential parking spaces, including hotel parking, as part of the Project. RSG estimates that comparable spaces generate an average of approximately $8,000 in annual revenue per space in 2018 and projects a 3 percent annual inflation on this revenue.

The Project would generate almost $700,000 per year beginning in 2019, and approximately $4.7 million over the 10-year period through 2027 (2018 dollars). Table 24 illustrates the parking occupancy tax revenue expected in the first 10 years of the Project.

Table 24: 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
2019	860	$ 8,000	$ 6,860,000	10%	$ 686,000
Total, 2019-2028					$ 7,866,000
NPV, 10%					**$ 4,723,000**

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 (2029-2043) would equal slightly more than $3.2 million (2018 dollars). The parking occupancy tax from years 11-25 is summarized in Table 25.

Table 25: 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
2029	860	$ 10,700	$ 9,220,000	10%	$ 922,000
Total, 2029-2043					$ 17,153,000
NPV, 10%					**$ 3,185,000**

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 ("PSF") or per residential unit and applied a factor to account for inflation since the data was produced.

Retail uses generally consume $1.87 in electricity costs per square foot and $0.18 in natural gas costs per square foot. Restaurants average $4.72 in electricity costs per square foot and $1.48 in natural gas costs per square foot. Hotel and other lodging uses consume an average of $1.82 per square foot in electricity costs and $0.59 per square foot in natural gas costs. Offices, on average, spend $2.01 per square foot for electricity costs and $0.22 in natural gas costs. Utility expenditures for all of these uses were adjusted to account for vacant space, which requires lower use of utilities at $0.29 per square foot for electricity and $0.24 per square foot for natural gas.

In addition, residential rentals located in multifamily structures tend to use $619 per unit on electricity and $266 per unit on natural gas. Owned residential units located in multifamily structures spend an average of $698 per unit in electricity costs and $313 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 $1.4 million and natural gas bills of $441,000. These bills will result in approximately $165,000 of electricity utility user tax revenues and $44,000 of natural gas utility user tax revenues per year. Assuming an annual 3 percent inflation rate, the Project will raise more than $2.4 million (2018 dollars) in electricity and natural gas utility user taxes over the 25-year period (Table 26).

Table 26: 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	82,622	12.5%	$ 22,500	10.0%	$ 1,900	$ 24,400
Specialty Retail	3,694	12.5%	1,000	10.0%	$ 100	$ 1,100
Restaurants	37,636	12.5%	25,800	10.0%	$ 6,500	$ 32,300
Hotel Restaurants	13,300	12.5%	9,100	10.0%	$ 2,300	$ 11,400
Fitness Center	33,307	12.5%	9,100	10.0%	$ 700	$ 9,800
Hotel Rooms	231,542	12.5%	64,000	10.0%	$ 18,200	$ 82,200
	Units					
Apartments	356	10.0%	27,400	10.0%	$ 11,800	$ 39,200
Condominiums	67	10.0%	5,800	10.0%	$ 2,600	$ 8,400
Total, 2019						$ 208,800
Total, 2014-2043						7,616,000
NPV, 10%						**2,408,000**

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 67 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. This would create approximately $45,000 in property transfer tax revenue for the City in the first year after the stabilization period, with a total of approximately $386,000 through 2043 (2018 dollars). For the County, the first year of stabilized condominium sales will provide approximately $11,000 in property transfer tax revenue. The County can expect approximately $94,000 (2018 dollars) in property transfer tax revenue over the 25-year period. Table 27 summarizes property transfer tax projections.

Table 27: Property Transfer Tax Revenue

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

Year	Transfer Value	City Transfer Tax Rate / $500	City Transfer Tax Revenue	County General Fund Rate / $1,000	County General Fund Revenue
2021	$ 10,057,000	$ 2.25	$ 45,000	$ 1.10	$ 11,000
Total, 2018-2043			1,305,000		318,000
NPV, 10%			**386,000**		**94,000**

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 will approximate $313.6 million. 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.

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 (2018 dollars). Table 28 describes the distribution of construction materials sales and related sales tax revenue over the construction period.

Table 28: Construction Materials Sales Tax Revenue

CITY OF LOS ANGELES
100 SOUTH GRAND AVENUE, LOS ANGELES

	Year	Cost of Construction Materials Purchased in City	City Revenue
CY 1	2015	$ 29,070,000	$ 291,000
CY 2	2016	59,884,000	599,000
CY 3	2017	107,941,000	1,079,000
CY 4	2018	111,180,000	1,112,000
Total		308,075,000	3,081,000
NPV	10%		**3,081,000**

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 $911,000 (2018 dollars). Table 29 provides the total gross receipts tax revenues generated as a result of the Construction Gross Receipts.

Table 29: 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	2015	$ 67,271,000	$ 86,000
CY 2	2016	138,579,000	177,000
CY 3	2017	249,788,000	319,000
CY 4	2018	257,282,000	329,000
Total		712,920,000	911,000
NPV	10%		**911,000**

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.

The Developer expects to sell approximately 25 percent of the 67 condominiums in 2018 and the remaining condominiums in 2019. These sales would lead to $367,000 (2018 dollars) of property transfer tax revenue for the City and $90,000 (2018 dollars) for the County, as shown in Table 30.

Table 30: Initial Property Transfer Tax Revenue

CITY AND COUNTY OF LOS ANGELES
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	2015	$ -	$ 2.25	$ -	$ 1.10	$ -
CY 2	2016	-	2.25	-	1.10	-
CY 3	2017	-	2.25	-	1.10	-
CY 4	2018	21,539,000	2.25	97,000	1.10	24,000
CY 5	2019	65,910,000	2.25	297,000	1.10	73,000
Total				394,000		97,000
NPV	10%			**367,000**		**90,000**

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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 2012 County of Los Angeles dataset 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.[7]

RSG analyzed both temporary and permanent economic impacts. The total Project hard costs ($627,185,000) 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 ($248,163,000) and nonresidential development ($379,022,000). The former corresponds to IMPLAN Sector 37, "Construction of new residential permanent site single-family and multifamily structures." The latter corresponds to IMPLAN Sector 34, "Construction of new nonresidential commercial and health care structures."

The Project's gross annual receipts, including from the retail, restaurants, fitness center, apartments, and hotel ($170,840,217) 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, IMPLAN Sector 327
- Retail Stores – Electronics, IMPLAN Sector 322

[7] 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 – Furniture and home furnishings, IMPLAN Sector 321
- Retail Stores – General merchandise, IMPLAN Sector 329
- Retail Stores – Health and personal care, IMPLAN Sector 325
- Retail Stores – Miscellaneous, IMPLAN Sector 330[8]
- Fitness and recreational sports centers, IMPLAN Sector 407
- Real estate, IMPLAN Sector 360
- Hotels and motels, including casino hotels, IMPLAN Sector 411

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 3,600 new direct full-time and part-time jobs, 1,710 indirect full-time and part-time jobs, and 1,828 induced full-time and part-time jobs within the City. The total temporary construction jobs attributed to the Project exceed 7,100 full time and part time jobs.

The total temporary direct labor income resulting from the Project is $231.7 million, indirect labor income is $87.1 million, and induced labor income totals $74.9 million. The temporary economic output of the Project directly correlates to the direct construction costs, including $627.2 million of direct economic output, $225.3 million of indirect economic output, and $207.7 million of induced economic output. The total direct, indirect, and induced economic output generated by the construction of the project exceeds $1.06 billion within the City limits and over $1.1 billion within the County boundary.

The permanent impacts attributed to the Project are 1,588 direct full-time and part-time jobs, 247 indirect full-time and part-time jobs, and 329 induced full-time and part-time jobs. The total permanent operation jobs attributed to the Project exceed 2,160 full-time and part-time jobs.

The permanent labor income generated by the operations of the project totals $51.0 million of direct labor income, $13.6 million of indirect labor income, and $15.2 million of induced labor income. The permanent economic output includes $132.3 million of direct economic output, $34.6 million of indirect economic output, and $42.1 million of induced economic output.

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

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

Table 31: 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	2,978	940	1,005	**4,923**
Part Time Employment	622	770	824	**2,215**
Economic Output	$ 627,185,000	$ 225,275,000	$ 207,738,000	**$ 1,060,198,000**
Permanent (Operations)				
Employment				
Full Time Employment	1,114	136	181	**1,431**
Part Time Employment	474	111	148	**733**
Economic Output	$ 132,318,054	$ 34,642,568	$ 42,140,606	**$ 209,101,228**
COUNTY OF LOS ANGELES	Direct	Indirect	Induced	**Total**
Temporary (Construction)				
Employment				
Full Time Employment	2,978	1,003	1,077	**5,058**
Part Time Employment	622	822	883	**2,327**
Economic Output	$ 627,185,000	$ 249,910,252	$ 223,878,543	**$ 1,100,973,794**
Permanent (Operations)				
Employment				
Full Time Employment	1,114	143	188	**1,446**
Part Time Employment	474	118	154	**746**
Economic Output	$ 132,318,134	$ 38,241,633	$ 44,833,224	**$ 215,392,992**

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 result in nearly 1,200 permanent jobs, and generate over $138.3 million (NPV) over 25-years, without considering indirect and induced impacts. However, the Project currently faces a feasibility gap over $162.9 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. For example, approximately 75 percent (nearly 100,000 square feet) of the gross area dedicated to the multifamily apartment component is leasable. Modifying the Project to increase efficiencies may dramatically increase leasable square footage, and, in turn, operating income.

- City Assistance: The City subsidizes the development with between $0 and $101.3 million (2018 Dollars) of financial assistance in the form of tax rebates over the next 25 years, subject to negotiations with the Developer, limited by the lesser of the hotel 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 $32.1 (NPV ten percent) million 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.