REPORT OF THE
CHIEF LEGISLATIVE ANALYST

DATE: November 21, 2017

TO: Honorable Members of the City Council

FROM: Sharon M. Tso
Chief Legislative Analyst

Assignment No: 17-11-1059

PICO-FIGUEROA HOTEL
INCENTIVE EVALUATION

SUMMARY

On January 19, 2016, Motion (Huizar-Price, CF #16-0073, Attachment A) was introduced to authorize the Chief Legislative Analyst (CLA) to evaluate the proposed Pico-Figueroa Hotel project and determine whether financial assistance is warranted to support development of the project. Lightstone Group, as the development team of Lightstone DTLA LLC, has developed plans for the Pico-Figueroa Hotel project, which will consist of two towers containing three hotels with a total of 1,130 rooms directly across the street from the Los Angeles Convention Center (LACC). The three hotels in the project will be select service brands and will provide facilities and services associated with this hotel model. The project will also include ground level retail and parking facilities.

The project is viable only with the inclusion of a City-owned parcel located between the two privately owned parcels controlled by the Developer. Council authorized the General Services Department (GSD) in 2012 to initiate the surplus property process for this parcel, which has been substantially completed. The City would sell the property to the Developer for an appraised value of $9.6 million. If approved, sale of this property to the Developer would complete the surplus property process.

A review conducted by the City's independent consultant determined that the project has a finance gap of $67.4 million. The review also determined that the project will generate $158 million net present value (NPV) in net new revenues to the City. Consistent with City policy, the Developer would be eligible to receive up to $67.4 million NPV in financial assistance (which is 43% of net new revenues generated by the project). The City would receive an estimated $90.6 million NPV in new General Fund revenues.

The project would generate new hotel rooms to support the LACC, generate new jobs and new City revenues, and provide community benefits. Completion of this project, as well as other hotel projects supported by the City, would increase the number of hotel rooms within walking distance of the LACC to over 6,500 rooms. The City's objective has been to reach 8,000 hotel rooms in this area. Therefore, providing financial assistance for the project would be consistent with City policy.

RECOMMENDATIONS
That the City Council:

1. Authorize the Mayor to execute a Memorandum of Understanding between the City of Los Angeles and Lightstone DTLA LLC providing terms for agreements necessary to provide a revenue participation agreement to close the financing gap in the Pico-Figueroa Hotel project;

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

3. Instruct the City Administrative Officer (CAO) and the General Services Department (GSD), and request the City Attorney, to prepare the necessary reports, documents, and ordinances necessary to effectuate the sale of the City-owned parcel at the corner of Figueroa Street and Pico Boulevard (1260 Figueroa Street/601 Pico Boulevard).

FISCAL IMPACT STATEMENT
There is no fiscal impact on the City General Fund associated with this action, inasmuch as City staff are being instructed to report the final, definitive documents necessary to provide a future revenue participation agreement for the Pico-Figueroa Hotel Project.

BACKGROUND
The City acquired the parcel on the eastern corner of Pico Boulevard and Figueroa Street in 1969 to facilitate the widening of Figueroa Street. Most of the remaining properties on this block were later acquired by the former Community Redevelopment Agency for inclusion in the Los Angeles Sports and Entertainment District, with the exception of two parcels that remained in private ownership that are located on either side of the City parcel. Those two parcels remain under private ownership.

In 2011, Council initiated a process to identify a developer to construct a major hotel development at the site. The site is located immediately across from the LACC and presents an opportunity to increase the number of hotel rooms to serve conventions that attract national and international visitors.

Project History

In November 2012, the City released a Request for Proposals (RFP) seeking a developer to build a hotel on the City parcel. In January 2013, the City received two bids in response to the RFP, but those bids did not meet the City's development goals.

Subsequently, the City received a proposal from the owner of the two parcels adjacent to the City parcel, Downtown Live, LLC. They offered to work jointly with the City to develop a hotel with over 1,000 rooms using the City parcel and the two adjacent private parcels. Such a proposal was consistent with City policy and the RFP to develop a hotel product that could support LACC activities and create new jobs.

This proposal led to the development of an agreement between the owner of the two adjacent parcels and Lightstone Group to develop a 1,130 room hotel complex with associated amenities, ground floor retail, and parking, with Lightstone Group assuming responsibility for development of the project (Developer). Following design of the project and analysis of the cost to develop the project, the Developer determined that financial assistance was needed to ensure completion of the project. The project has been named the Pico-Figueroa Hotel project.

On January 19, 2016, Motion (Huizar-Price, CF #16-0073, Attachment A) was introduced to authorize the Chief Legislative Analyst (CLA) to evaluate the proposed project and determine whether financial assistance is warranted. The CLA conducted a competitive bid process and selected Keyser Marston Associates (KMA) to conduct a review of the costs and financing plan for the project to determine whether there was a financing gap in the project, as well as a determination of any new revenues that the City might receive as a result of project completion. KMA has completed their analysis (Attachment B) and determined that the project is not feasible without support and could qualify for an incentive consistent with City policy as discussed further below.

Proposed Project

The Pico-Figueroa Hotel project will consist of two towers containing three hotels. A larger tower facing Figueroa will contain two select service hotels by Marriott, a 410-room AC Hotel and a 410-room Moxy Hotel. The second tower will face Pico Boulevard and will contain a 310-room Hilton Garden Inn Hotel. This will provide a total of 1,130 new hotel rooms within walking distance of the LACC. The hotels will include all facilities associated with a select service hotel, including restaurants, bars, recreational facilities, and a modest amount of conference and meeting space. The project will also include ground level retail and parking facilities.

Pico-Figueroa Parcel

The City-owned property at 1256/1258 South Figueroa Street is 18,811 square feet in area and located on the corner of Figueroa Street and Pico Boulevard, across from the LACC. The City originally acquired the property in 1969 to support public street improvements along Figueroa. The parcel is bounded on either side by privately owned parcels, which will be included in the proposed development. There are no structural improvements on the site. It is currently in use as a parking lot, with a dedicated lease to the adjacent restaurant owner for a sum of $20,000 per month.

In June 2012, Council authorized that this parcel be declared surplus property with the intent of making it available for economic development opportunities involving a hotel development. In response to Council direction, GSD initiated the Surplus Property process for the parcel by confirming City ownership and conducting the required title search in July and August 2012. On July 26 and July 27, 2012, the required Section 54220 letters were sent to outside agencies and City departments. In addition, the Mayor and Council Offices were notified of the surplus property process in September 2012. No interest was expressed by any agency within the required response period (six months from the July notice period).

From January 2013 through September 2013, GSD with the assistance of the City's Bureau of Engineering conducted required reviews for environmental and geotechnical matters, as well as preparation of a legal description and review of Planning approvals.

With these actions completed, the property is ready for declaration as surplus property. The next step generally is to identify the buyer and prepare the necessary documents and ordinance to effect the sale of the property and make the official surplus property declaration. As the City and Lightstone are in agreement as to the proposed project as described in the MOU, the recommendation to Council would be to complete this surplus property process with the intention of selling the parcel to the Developer.

Memorandum of Understanding

Should Council determine that an incentive is appropriate to support development of this project, a Hotel Incentive Agreement would be prepared to establish terms for the provision of financial assistance. At this stage, a draft Memorandum of Understanding (MOU) has been prepared (Attachment C) that provides terms that would serve as the basis for negotiation of the definitive documents necessary to establish the hotel incentive agreement between the City and the Developer. The terms are as follows:

- Incentive payment of $67.4 million NPV ($103.3 million nominal) over a term of up to 25 years.

- The hotel will achieve and maintain a three star rating as defined and as determined by the AAA Tour Book Guide – Southern California, or at an equivalent level by an alternative nationally recognized hotel rating service for the duration of the term.

- The Developer shall provide a Community Benefits Package, including local hiring, living wage requirements, job training and job creation, and a room block agreement for both the LACC and the 2028 Olympic and Paralympic Games.

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

- Upon completion of construction, an independent party will evaluate the construction costs for the project. If construction costs are lower than estimated in the City's analysis, then the amount of the hotel incentive would be reduced. This cost reconciliation will ensure that the City's incentive is commensurate with the gap.

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

Further, the Developer has identified additional costs that affect the viability of the project. The Council Office has indicated that discretionary funds of $2.6 million would be available to provide additional assistance to the project. The Office has indicated that the high priority for job creation through development of this hotel and the expanded convention business that would be generated at the LACC are the basis for project support. The General Fund will not be affected by this additional support.

Substantial City Public Benefit

The Block Grant Investment Fund (BGIF) Policy, adopted by Council in 1996 and revised in 2001, provides the guidelines under which the City's assistance for hotel incentive agreements are based. As noted previously, the City selected KMA through a competitive bid process to conduct a review of the financial feasibility, public revenues, and employment generation associated with the Pico-Figueroa Hotel project, as required by the BGIF Policy.

The following provides findings for the Pico-Figueroa Hotel project in compliance with the BGIF policy. Policy requires that the project meet City policy objectives, such as provide quality jobs, provide long term revenue growth in the City's General Fund, and enhance the City's long term economic position. The Pico-Figurereoa Hotel project provides the following public benefits:

- **Job Creation**

The Developer indicates that the completed project would generate 1,320 permanent jobs. KMA evaluated the project using Rims II Direct Effect Multipliers for accommodations and retail, which suggests that the project would generate 1,320 full-time and part-time (1,170 full-time equivalent) jobs. This accounts for jobs both within the project and in the region generally (direct, indirect, and induced). In addition, KMA estimates that the project would generate 3,190 construction related jobs.

- **Hotel Support for Los Angeles Convention Center (LACC)**

The City has obtained several studies over the last decade evaluating the need for hotel rooms within walking distance of the LACC. The latest, a March 2017 analysis of the hotel market surrounding the LACC prepared by JLL, Inc., for the Los Angeles Convention and Tourism Department (CTD), indicates there are only 3,172 hotel rooms within walking distance of LACC, ranking Los Angeles 19th among major convention destinations in the U.S. The recent opening of the Wilshire Grand Hotel and Hotel Indigo has moved Los Angeles into the 16th position with 5,162 room, just ahead of Nashville, TN.

For comparison, Table 1 indicates the number of hotel rooms among convention centers on the West Coast. The data indicate that not only does the LACC need additional hotel rooms within walking distance of the facility to serve convention business, it is critical that rooms be located closer to LACC. Again, the Wilshire Grand and Hotel Indigo were not operational at the time the March 2017 report was prepared. The additional 1,130 rooms provided by these facilities are a significant addition to meet the LACC's needs, but not nearly enough to approach the City's major competitors on the West Coast.

Table 1

West Coast City Hotel Rooms by Distance

(within 3/4 mile from the convention center)

Convention Center	¼ Mile	½ Mile	¾ Mile	Total
San Francisco	3,290	7,470	10,810	21,570
Anaheim	4,430	5,470	3,590	13,400
Seattle	3,340	5,480	1,840	10,660
San Diego	2,120	5,120	3,130	10,370
Los Angeles	0	1,854	1,318	3,172*
Long Beach	1,370	760	430	2,560

* 5,162 with the addition of the Wilshire Grand Hotel and Hotel Indigo

Finally, various data sources indicate that demand for hotel rooms in Los Angeles is growing tight. The Los Angeles Tourism and Convention Bureau (LATCB) reports in their "Market Outlook 2017" that while national lodging occupancy dropped by 0.2% in 2016, Los Angeles occupancy grew by 2.1%. Downtown Los Angeles occupancy has shown the strongest growth in the Los Angeles region, with a 4.5% increase in 2016, exceeding anticipated growth of 4.1% estimated by CBRE in 2015. LATCB data indicate that Downtown has experienced an additional 1.6% increase through June of 2017 while the Los Angeles region has generally seen a 0.8% decrease during the same six-month period.

An August 2017 report for the CTD prepared by JLL, Inc., evaluates the impact of projected hotel development on the Downtown hotel market. The report indicates that the Downtown hotel market has been the top national performer for much of 2016 and that the market can absorb the additional rooms projected to be developed, including the Pico-Figueroa hotels. The KMA analysis reports that the Pico-Figueroa Hotel project will operate at a 78% occupancy rate by the third year of operation, meaning that the market will be able to absorb these new rooms.

Development of the Pico-Figueroa Hotel project will provide additional hotel rooms within walking distance of the LACC, contributing to the total number of rooms available to support Citywide conventions. Notably, this project will create 1,130 rooms within 1/4 mile of the LACC.

- **Community Benefits**

The Developer has agreed to provide community benefits as part of its project development plan. Those benefits include card check neutrality, living wage compliance, local hiring compliance, and a room block agreement relating to the LACC and the 2028 Olympic and Paralympic Games. Additional community benefits may be included in the final Hotel Incentive Agreement, such as job training and job creation programs.

- **Net New City Revenue**

The project site is currently comprised of an older two-story building with restaurant uses and two parking lots, generating approximately $174,000 annually in public revenues. After construction, the project is estimated to generate $14 million in net new public revenues in its first year of operation, a significant increase over existing revenues. This increase is a result of new property tax, sales tax, utility tax, parking tax, and transient occupancy tax (TOT) revenues. As noted, City policy requires that no more than 50% of net new revenues would be available to incentivize development of the project, with all remaining funds accruing to the City.

<u>Financial Need</u>

Upon detailed review of financial information provided by the Developer, as well as information provided by other resources in the commercial finance market, KMA has determined that the Pico-Figueroa Hotel project has a finance gap of $67.4 million. A significant factor in the cost of the project is that constraints associated with the site require Type 1, concrete and steel high rise construction. Further, the location of the project results in higher land prices and requires a higher quality standard that is consistent with the surrounding environment in order to be competitive in the market and attract convention business.

<u>Incentive Available</u>

City policy provides that the Developer would be eligible to receive up to 50% of net new revenue generated by the project, but no more than the estimated finance gap. KMA has determined the project would result in the generation of $158 million NPV ($488.2 million nominal) in net new City revenues, such as new TOT, sales tax, property tax, and business tax revenues. Since 50% of estimated net new revenue is $79 million NPV and the finance gap is

$67.4 million, the Developer would be eligible to receive up to $67.4 million under City policy, which is 43% of net new revenues generated by the Project.

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

Project Readiness

The Developer has initiated the entitlement environmental review process. Should these actions be approved as anticipated in the first quarter of 2018, project construction would begin as soon as the second quarter of 2018.

Site Specific Revenue

The KMA analysis calculated site specific revenues that would be generated by the project. As noted previously, the project will receive no more than 50% of net new revenue generated by the project. The project is expected to generate $158 million NPV ($488.2 million nominal) in total net new revenues from sources such as property tax, sales tax, and business tax. Again, as noted above, the 50% of net new revenues generated by the project are higher than the finance gap in the project, so the Developer is eligible to receive no more than the amount of the finance gap, which is $67.4 million NPV. The General Fund, then, would receive an estimated $90.8 million NPV ($384.8 million nominal) in new revenues over the life of this agreement.

Attachments:

A Motion (Huizar-Price) CF# 16-0073

B Pico & Figueroa Hotels – Financial Feasibility, Public Revenue & Employment Analysis by Keyser Marston Associates

C Memorandum of Understanding Between the City of Los Angeles and Lightstone Group

ATTACHMENT A
Motion (Huizar-Price)
CF# 16-0073

ECONOMIC DEVELOPMENT

MOTION

The City has made substantial progress in its effort to support and enhance the convention and tourism business over the past decade. The City restructured the management of the Los Angeles Convention Center and embarked on an effort to renovate and expand the facility to stimulate economic growth. The City has also focused its efforts to support the development of new hotels in the vicinity of the Convention Center to attract new and bigger events.

There is still a need to expand the number of hotel rooms within walking distance of the Convention Center. According to a lost business analysis by the Los Angeles Tourism & Convention Board from 2010–2014, inadequate hotel or convention center space contributed to lost citywide conventions that could have provided a positive economic impact of $4.9 billion. Similarly, a 2015 report by Conventions, Sports & Leisure, International commissioned by the City found that the lack of hotel rooms within walking distance of the Convention Center results in Los Angeles forfeiting a significant and lucrative percent of national convention business. To compete with other cities, Los Angeles needs approximately 8,000 rooms within walking distance to the Convention Center and there are only 3,172 as of September 2015.

A proposal is coming forward to construct a large project with approximately 1,000 hotel rooms across from the Convention Center, comprising three parcels bounded by Figueroa Street, Pico Boulevard, and Flower Street. The project proposes to include the City-owned parcel on the corner of Figueroa and Pico. This site provides an opportunity to create a significant number of new hotel rooms to support the Convention Center. The project would include ground-level retail, parking, two hotel towers with sky lobbies, and amenities for hotel guests. The Developer has indicated that the proposed hotel requires financial assistance to construct this project and has requested the City provide economic incentives similar to those granted to other large hotel projects. Consistent with City policy, the Developer would fund an independent economic analysis.

More hotel rooms are critical for the City to achieve its goal of having 8,000 hotel rooms within walking distance to the Convention Center, in addition to the larger purpose of supporting the City's thriving role as an international tourist destination. This project would significantly help the City achieve these goals.

I THEREFORE MOVE that the City Council authorize and instruct the Chief Legislative Analyst to hire consultants necessary to evaluate the proposed hotel project at Pico Boulevard and Figueroa Street and make recommendations on economic development incentives that could help the project move forward, including, but not limited to, a potential site specific revenue agreement consistent with City policies; accept $150,000 for consultant services from the developer to analyze the economics and financing associated with this instruction; request / authorize / instruct the City Controller to deposit / appropriate / expend all funds received as a result of this action in Fund 100, Department 28, Contractual Services Account 3040; and authorize the CLA to make any technical corrections, revisions, or clarifications to the above instructions in order to effectuate the intent of this action; and

I FURTHER MOVE that the developer pay the full cost for any financial and economic analysis, consultants and any other reviews associated with the economic evaluation of this project.

PRESENTED BY: ______________________

Jose Huizar
Councilmember, 14th District

JAN 19 2016

SECONDED BY: ______________________

ORIGINAL

ATTACHMENT B

"Pico & Figueroa Hotels – Financial Feasibility, Public Revenue & Employment Analysis "

Keyser Marston Associates

KEYSER MARSTON ASSOCIATES.
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

To: Sharon Tso, Chief Legislative Analyst
City of Los Angeles

From: James Rabe, CRE
Kevin Engstrom

cc: John Wickham

Date: November 17, 2017

Subject: Pico & Figueroa Hotels – Financial Feasibility, Public Revenue & Employment Analysis

Pursuant to your request, Keyser Marston Associates, Inc. (KMA) prepared an analysis of: (1) the development feasibility of the proposed Pico and Figueroa Hotels (Project); (2) the site-specific revenues and net new revenues during the Incentive term that could be generated by the Project; and (3) the employment generated by the Project. The Project will be developed by the Lightstone Group (Developer).

The Project consists of the construction of two high-rise buildings containing three separate hotels: a 410-room AC Hotel, a 410-room Moxy Hotel and a 310-room Hilton Garden Inn. The 1,130-room Project will be located on the northeast intersection of W. Pico Boulevard and Figueroa Street (Site), which is currently used as a surface parking lot and commercial development. In addition to the three hotels, the Project contains 17,200 square feet of leased commercial space. Parking will be provided by a 353 space parking garage servicing all three properties.

In preparing this analysis, KMA has met with the City of Los Angles (City) and the Developer. The Developer provided the *Study of Potential Market Demand and Statements of Estimated Annual Operating Results & Development Feasibility and Public Revenues Analysis for the Proposed Hotels to be Located at South Figueroa Street and West Pico Boulevard in Los Angeles, California* prepared by CBRE Hotels

Consulting (CBRE), which summarized their projected operating performance and development costs.

The body of the memorandum is organized as follows:

- Executive Summary
- Feasibility Analysis
- Site-Specific Revenue Analysis
- Project Employment
- Conclusions

EXECUTIVE SUMMARY

Feasibility Analysis

The Developer is proposing to build a 410-room AC Hotel, 410-room Moxy Hotel and a 310-room Hilton Garden Inn Hotel. Based on the above brands, KMA assumes the Project will be developed to a minimum three-star quality level with a commensurate level of amenities. All three of these hotels are select-service brands, which implies a limited amount of hotel managed food & beverage services. KMA conducted a financial analysis that estimates the feasibility gap of the proposed development, relying on cost and revenue information provided by the Developer, as well as KMA's own experience with hotel projects in Southern California. KMA reached the following conclusions based on the analysis:

- Overall development costs, as estimated by the Developer, are high for a project of this type. However, the Project's construction type, building height, and location are all factors that add cost premiums over a typical three-star hotel development. Based on these considerations, KMA estimated the hotel construction cost at $454 million ($402,000 per key).

- The stabilized, average daily rate (ADR) for the three hotels are projected to range from $225 to $240 range (in 2016 dollars). This rate is consistent with the average for the better performing hotels in Downtown.[1]

[1] The average ADR for the Downtown LA Hotels exceeding an ADR of $130 per night was $224 in 2016 (The 2017 Southern California Lodging Forecast).

- The Project's stabilized occupancy levels are expected to be 78%, which is consistent with the current occupancy rate of better performing hotels in Downtown (79% in 2016).
- KMA estimated the net operating income (NOI) at $14.0 million (36.4% of gross revenue) for the AC, $11.2 million (35.4% of gross revenue) for the Moxy Hotel and $8.9 million (36.2% of gross revenue) for the Hilton Garden Inn. Overall, the ratio of NOI to gross revenues for the Project reflect a well-operated, efficient property.
- KMA estimated the Project's total stabilized net revenue at $36.7 million, which includes the NOI for each hotel plus signage revenue of $2.7 million.
- KMA estimates the feasibility gap for the Project at $67.4 million, based on the development costs and revenues described above. Typical return on costs thresholds range from 8.5% to 10.5% for hotels in the market area; depending on location, brand and quality level. The KMA analysis relies on a 9.5% return on cost threshold, for the following reasons: market area cap rates for select service hotels are higher than full-service properties; the small size of the site increases construction risk, due to the Project's height and density; and, including three hotel brands in a single development adds complexity to the Project.

Site-Specific Revenues

KMA prepared estimates of the site-specific revenues that are likely to occur during the construction and operation of the Project. The scope of the KMA analysis is limited to the City of Los Angeles General Fund revenue impacts that occur on-site as a result of the Project during construction, and a 25-year operating period. Based on market research, discussions with the Developer and City, the KMA analysis assumes that all of the Hotel visits generated by the Project will be net new to the City of Los Angeles. The public revenues that are considered to be site-specific revenues include:

- Transient occupancy taxes (TOT) from Hotel guests;
- The City's share of property tax from the 1.0% general levy;
- Sales tax revenues from Hotel and restaurant operations and construction sales;
- Gross receipts taxes from the operation of the Hotel, parking, and on-site retail/restaurant;
- Utility taxes for electricity, gas, and telephone usage; and
- Parking taxes on parking gross receipts.

KMA projected the incremental revenues generated by the Project. As shown in Summary Table 1, TOT generates the majority of the site-specific revenues at $409.2 million. The public revenues generated by the Project during the two-year construction period and 25-year operating period are $494.5 million, which equates to $160.3 million in net present value (NPV), when discounted at 10%.

The net new public revenues are equal to the site-specific revenues during the incentive period reduced by the public revenues that would be generated by the site, if the property maintained its current use. Based on information provided by the City, the Site currently generates approximately $170,000 in site-specific revenues annually.[2] As shown in Summary Table 2, the net new revenues have a nominal value of $488.2 million and $158.0 million NPV.

The City's subsidy program is structured to be the lesser of 50% of the net public revenues or the feasibility gap. For this Project, the feasibility gap is $67.4 million, which is lower than 50% of the net public revenues ($79.0 million). Therefore, the NPV of the maximum assistance available is $67.4 million. After the subsidy, the incremental City revenues generated by the Project will have a nominal value of $384.8 million and present value of $90.6 million.

Project Employment

The Project is estimated to generate a significant amount of employment. On-site, approximately 754 jobs are anticipated plus 50 commercial jobs. Based on the relevant multipliers, the direct, indirect and induced employment generated by the Project is 1,320 full and part-time jobs (1,170 FTEs). During construction, the Project is projected to generate 3,190 temporary jobs.

FEASIBILITY ANALYSIS

The Developer of the Pico and Figueroa project (Project) is proposing a 410-room AC Hotel, a 410-room Moxy Hotel and a 310-room Hilton Garden Inn. KMA conducted a financial analysis that estimates the surplus/feasibility gap for the 1,130-room Project. The analysis conducted herein relies on the submittal from the Developer and our experience with other hotel developments in Southern California. The KMA pro forma analysis is organized as follows:

- Table 1 - Estimated Development Cost
- Table 2 - Estimated Net Operating Income/Sales Revenue

[2] Based on information supplied by CBRE and the City.

- Table 3 - Estimated Project Surplus/(Feasibility Gap)

Estimated Development Costs

The estimated Hotel development costs are shown in Attachment 1 – Table 1. Given the proposed brands, KMA assumes the Hotel will be operated at a three-star quality level, with amenities appropriate for such a property. Consequently, the following key issues were identified during our review of the Hotel pro forma.

1. KMA assumed a land value of $40.9 million. This estimate assumes the privately held land has a value of $900 per square foot, based on a review of comparable land sales in the LA Live market area. In addition, the City engaged an appraiser to estimate a value for the 15,359 square foot parcel it owns. The City's appraisal indicated a value of $630 per square foot this property. Overall, the land value for the entire site is $720 per square foot. The Developer land value assumption is much higher at $60.5 million; however, KMA relied on the aforementioned land sales comps and the City's appraisal to identify a value more consistent with the market area.

2. The signage costs are estimated at $14.1 million.

3. The Developer is proposing to construct 353 parking spaces for the Project. The Developer indicates the Hotel brands have found the number of spaces to be sufficient. The Developer estimates the parking costs are $32.2 million, which is roughly $91,300 per space. The per space costs are very high; however, these costs include the podium construction costs required for the Project.

4. The Project will include 17,200 square feet of commercial space with construction costs of $255 per square foot ($4.4 million).

5. The Hotel furniture, fixture and equipment (FF&E) budget is estimated at $27,000 per key, which is typical for comparable hotels, and is sufficient for the quality level that the Developer intends to achieve.

6. The Hotel shell costs are estimated at $204,800 per key ($230.4 million). These costs are relatively high; however, there are a number of reasons for these high costs, including:

    a. The costs include prevailing wage provisions.

b. The Hotel will be a Type I, concrete and steel high-rise Project, which is significantly more costly than low-rise, wood-frame construction.

c. Given the urban location and surrounding developments, the Hotel will be built to a very high quality standard that is consistent with the surrounding environment and built to attract high quality, large conventions.

d. Significant site constraints.

7. A contingency provision equal to 5% of the direct costs is included, which is a typical allowance for this type of development.

8. The architecture, engineering and consultant costs are estimated at 7.0% of direct costs ($22.9 million), which is consistent with industry standards.

9. Based on information provided by the Developer and reviewed by the City, the permits and fees are estimated at $3.5 million.

10. The taxes, insurance, legal and accounting costs for the Hotel are 2.0% of direct costs, which is within the range of typical costs (1.0% to 3.0%).

11. Based on information provided by the Developer, the pre-opening/working capital costs for the Hotel are $2,800 per room ($3.2 million). This is a modest amount for a hotel of this quality level.

12. Typical development management fees range from 3% to 5% of direct costs. Given the large-scale of this Project, a 4.0% development management fee is assumed.

13. A standard indirect contingency allowance of 5% of indirect costs is assumed.

14. The capitalized financing costs are estimated at $34.3 million by KMA. These financing costs, which are much lower than the Developer's, are consistent with industry standard financing assumptions and the proposed rates of return.

Overall, KMA believes the construction costs estimated by the Developer are reasonable; with the construction type, height of the Hotel, proposed quality level and location of the property all impacting these assumptions. Given the Developer's submitted construction costs and KMA's adjusted land value, the Projects development costs are $454.2 million, which equates to $402,000 per key.

Estimated Net Operating Income

The estimated NOI for the three hotels is shown in Attachment 1 – Tables 2A, 2B and 2C. The AC Hotel operating projections are shown in Table 2A, the Moxy Hotel in Table 2B and the Hilton Garden Inn in Table 2C.

AC Hotel

The AC Hotel NOI estimate includes the following key assumptions:

1. The stabilized, average daily rate (ADR) for the hotel is estimated at $240 ($2016). The estimate is based on projections provided by the CBRE Consulting and reviewed by the brand. According to CBRE Consulting, the ADR for better performing hotels in Downtown Los Angeles was $224 in 2016. Therefore, the AC Hotel is projected to achieve a rate that is 7% higher than the Downtown average. This is a healthy rate, given the fact that select service hotels traditionally have a lower rate structure than full-service hotels, which account for a healthy share of the Downtown supply.

2. The occupancy level is estimated at 78%, which assumes stabilization in Year 3 of operation. According to CBRE Consulting, the average occupancy level for Downtown Los Angeles hotels was 79% in 2016. Overall, this is a relatively healthy occupancy level and is typical of the product type.

3. The other revenue sources and expenses are based on the Developer's submittal and KMA's experience with other hotels in the region. As a select service hotel (which includes a limited food & beverage component) the vast majority of the revenues are generated from room sales.

4. The commercial rents are included in the Rentals & Other Income line item.

5. The Distributed Expenses are based on KMA's experience with similar hotels in the region and information provided by the Developer. These expenses assume the hotel will be union operated.

6. The Undistributed Expenses estimated by the Developer are typical for this type of hotel. For the purposes of this analysis, KMA's estimates are generally consistent.

7. The property taxes are estimated based on KMA's experience with similar projects in the region.

8. The FF&E reserves are estimated at 5% of gross revenues, which is consistent with other hotels in the region. Hotels typically have a high reserve requirement due to the need to turn over both soft and hard goods in rooms and common areas.

KMA estimated the NOI for the AC Hotel at $14.0 million, which is 36.4% of gross revenues. The ratio of NOI to gross revenues reflects a well-operated, efficient union property.

Moxy Hotel

The Moxy Hotel NOI estimate includes the following key assumptions:

1. The stabilized, average daily rate (ADR) for the hotel is estimated at $225 ($2016), which is consistent with the ADR for better performing properties in Downtown.

2. The occupancy level is estimated at 78%, which assumes stabilization in Year 3 of operation and is typical of the product type in this market.

3. The other revenue sources and expenses are based on the Developer's submittal and KMA's experience with other hotels in the region. As a select service hotel (which includes a limited food & beverage component) the vast majority of the revenues are generated from room sales.

4. The Distributed Expenses are based on KMA's experience with similar hotels in the region and information provided by the Developer. These expenses assume the hotel will be union operated.

5. The Undistributed Expenses estimated by the Developer are typical for this type of hotel. For the purposes of this analysis, KMA's estimates are consistent.

6. The property taxes are estimated based on KMA's experience with similar projects in the region.

7. The FF&E reserves are estimated at 5% of gross revenues, which is consistent with other hotels in the region. Hotels typically have a high reserve requirement due to the need to turn over both soft and hard goods in rooms.

KMA estimated the NOI for the Moxy Hotel at $11.2 million, which is 35.4% of gross revenues. The ratio of NOI to gross revenues reflects a well-operated, efficient, union property.

Hilton Garden Inn

The Hilton Garden Inn NOI estimate includes the following key assumptions:

1. The stabilized, average daily rate (ADR) for the hotel is estimated at $235 ($2016), which is 5% higher than the Downtown average. This is a healthy rate, given the fact that select service hotels traditionally have a lower rate structure than full-service hotels, which account for a healthy share of the Downtown supply.

2. The occupancy level is estimated at 78%, which assumes stabilization in Year 3 of operation and is typical of this product type in the market.

3. The other revenue sources and expenses are based on the Developer's submittal and KMA's experience with other hotels in the region. As a select service hotel (which includes a limited food & beverage component) the vast majority of the revenues are generated from room sales.

4. The Distributed Expenses are based on KMA's experience with similar hotels in the region and information provided by the Developer. These expenses assume the hotel will be union operated.

5. The Undistributed Expenses estimated by the Developer are typical for this type of hotel. For the purposes of this analysis, KMA's estimates are generally consistent.

6. The property taxes are estimated based on KMA's experience with similar projects in the region.

7. The FF&E reserves are estimated at 4% of gross revenues, which is consistent with other Hilton Garden Inns in the region.

KMA estimated the NOI for the Hilton Garden Inn at $8.9 million, which is 36.2% of gross revenues. The ratio of NOI to gross revenues reflects a well-operated, efficient union property.

Estimated Project Surplus/(Feasibility Gap)

Shown in Attachment 1 - Table 3 is the estimated Project surplus/(feasibility gap).

1. The NOI from the three hotels is $34.1 million.

2. The hotel signage revenue is estimated at $2.7 million.

3. Typical return on costs thresholds range from 8.5% to 10.5% for hotels in the market area; depending on location, brand and quality level. The analysis relies on a 9.5% return on cost threshold, for the following reasons:

    a. Market area cap rates for select service hotels are higher than full-service properties

    b. The small size of the site increases construction risk, due to the Project's height and density

    c. Including three hotel brands in a single development adds complexity to the Project

Other hotels near the Convention Center, Staples Center and LA Live may support lower returns; however, the complexities identified above push the return requirements for this Project higher. At this return, the Project would support $386.7 million in investment and the Project's feasibility gap is $67.4 million, which is the difference between the estimated development costs of $454.1 million and the supported investment of $386.7 million.

As a cross-check, KMA estimated the Project's feasibility gap by evaluating its profit margin. This return method utilizes a typical Developer profit based on the project costs and anticipated value of the development at stabilization. Typically, a hotel developer's profit (anticipated value at sale less development costs) will range from 20% to 25% of project costs. Due to the Project's complexities and consistent with the return on cost analysis, KMA assumed the mid-point of this range, 22.5%, to identify an appropriate level of profit. Assuming a 7.5% capitalization rate for the Project ($489.9 million value) and Project costs of $454.1 million, the Project's feasibility gap under these assumptions is $66.5 million, which is consistent with the return on cost analysis.

SITE-SPECIFIC REVENUE ANALYSIS

KMA was requested to review and estimate the site-specific revenues that might be generated by the development of the Project. KMA projected the revenues generated during the construction period and an operating period of 25 years. KMA made the following assumptions in projecting the public revenues:

- The purpose of the KMA analysis is to estimate the net new revenues that the Project would generate for the City of Los Angeles. The City currently receives property tax, sales tax and parking revenue taxes from the development on the Site. The Developer and City provided estimates of these revenues. To estimate the net new revenues, KMA calculated the gross revenues generated by the development of the Project and subtracted the current revenues generated on the Site.

- Based on the Project timeline provided by the Developer, KMA has assumed that the Project will require a two-year construction period, beginning in fiscal year 2018-19, with construction complete and the start of operations in 2020-21. Stabilized operations begin in the third year, 2022-23.

- KMA relied on the projections for hotel operations provided by the Developer (and reviewed by KMA), as the basis for projecting the gross room revenues, food and beverage sales, and other hotel revenues.

- The KMA analysis assumes that all of the hotel visitors generated by the Project will be net new to the City. This assumption is supported by the conclusion of the fiscal analysis commissioned by the City (the CSL analysis of the Downtown Stadium and Convention Center expansion), which indicates that the Convention Center hotel market is currently under-supplied by a minimum of 6,000 rooms.

- Finally, it is important to note that the purpose of the KMA analysis is to estimate the direct public revenue impacts of the Project occurring within the City of Los Angeles. The analysis is strictly limited to on-site General Fund revenue impacts from the sources described in the next section. KMA understands that there are indirect and induced economic impacts that may occur as a result of the construction and operation of the Project. These broader, more regional impacts are not considered in the KMA analysis.

Site-Specific Revenue Classes

The purpose of projecting the public revenues generated by the Project is to quantify the amount of assistance potentially available to the Project. The City revenues available to provide assistance to the Project include TOT, property tax, sales tax, gross receipts tax, utility tax and parking tax. The revenues available to assist the Project are those that are incremental to what the City would receive from the property without the development of the Project. Each category is discussed below and specific assumptions are presented in Attachment 2.

Transient Occupancy Tax

TOT is collected based upon the hotel room revenues. The City's TOT rate is 14.0%. KMA computed the TOT revenues based on the room revenue projections provided by the Developer and reviewed by KMA.

Property Tax

The Site is located in the tax rate area (TRA) 13264. According to the Los Angeles County Auditor-Controller's office, the City of Los Angeles receives approximately 26.3% of the 1.0% general levy rate. These property tax revenues accrue to the General Fund. These receipts are considered site-specific revenues.

Sales Tax

The City receives 1.0% of gross sales for the General Fund. The taxable sales from the hotel and leased commercial operations are considered new sales tax revenues to the City. Construction materials are also subject to sales tax. Under the Agreement, the Developer is obligated to have the Site recognized as a point of sale so that the construction sales tax accrues to the City.

Gross Receipts Tax

The City levies a tax on business activity in the City based upon gross receipts or gross revenues. For the Project, gross receipts are generated by the operation of the hotel, the parking operations, and the operation of the leased commercial. Gross receipts are also generated by the construction of the Project. All gross receipts are considered new site-specific revenues.

Utility Taxes

The City receives tax revenues from the use of electricity, natural gas, and telephone services. The tax rates vary by utility. These revenues are considered new and flow to the General Fund.

Parking Tax

The City collects 10% of the charges for parking as a citywide parking tax. Taxes collected from onsite parking flow to the General Fund.

Site-Specific Revenues

The Project's site-specific revenues are projected for the two-year construction period and a 25-year operating period. The computations of site-specific revenues based on the individual revenue streams are provided in Attachment 2. Summary Table 1 shows the gross site-specific revenues generated during the construction and operating period. TOT is by far the primary generator of site-specific revenues followed by property tax. Over the 27-year period of construction and operations, the Project is projected to generate $494.5million of general fund revenues. The net present value (NPV), discounted at 10%, is $160.3 million, as shown below:

Incremental Project Revenues		
	Total	**Net Present Value @ 10%**
Transient Occupancy Tax	$409,213,000	$130,983,000
Property Tax	41,193,000	14,847,000
On-Site Sales Tax	6,285,000	2,279,000
Gross Receipts Tax	6,022,000	2,151,000
Utility User Tax	10,748,000	3,339,000
Parking Tax	20,999,000	6,721,000
Total Revenues	$494,460,000	$160,320,000

Net Incremental Project Revenues

Under the policy, the assistance to the Hotel is limited to 50% of the net new public revenues up to the Project feasibility gap. The net new public revenues during the 25-year Incentive Term are equal the site-specific revenues generated by the Project, less the public revenues generated at the site without development of the Project. The baseline revenues (Annual Base Period Amount) are established by projecting forward the site's existing revenues at 2.5% annually. Summary Table 2 shows the calculation of the Net New Public Revenues and the 50% of Net New Public Revenues that are available to the Project.

	Gross Revenues	Net Present Value @ 10%
Site-Specific Revenues	$494,460,000	$160,320,000
(Less) Existing Amount	($6,294,000)	($2,307,000)
Net New Public Revenues	$488,166,000	$158,013,000
50% of Net New Public Revenues	$244,090,000	$79,010,000

The baseline revenues have a nominal value of $6.3 million and $2.3 million NPV, so the Net New Public Revenues have a nominal value of $488.2 million and a $158.0 million NPV. Applying the 50% factor to the net new revenues, the assistance available to the Project has a present value of $79.0, which is higher than the Project feasibility gap of $67.4 million. Therefore, the maximum subsidy payments to the Developer will have a present value of $67.4 million. Assuming a 10% discount rate and 100% of the TOT is available for the subsidy, the Developer's feasibility gap is projected to be paid off in 8 years. After the subsidy, the incremental City revenues generated by the Project will have a nominal value of $384.8 million and present value of $90.6 million.

PROJECT EMPLOYMENT

Working with information provided by the Developer, KMA estimated the direct, indirect and induced employment generated by the Project. The direct employment is the actual number of jobs created on-site. The indirect and induced employment are the off-site jobs created throughout Los Angeles County as a result of the investment and operating performance of the Project.

Project Employment

The Project employment estimates are based on information provided by the Developer, which indicated 754 jobs would be generated by the hotels. The employment projections are based on the Developer's experience with similar projects. In addition, the Project will have 17,200 square feet of leased commercial space, which is expected to generate approximately 50 jobs.

Direct, Indirect and Induced Employment

The indirect and induced employment generated by the Project is measured for Los Angeles County based on the Rims II Multiplier. To estimate these impacts, the appropriate industry sector multipliers are selected. For the purposes of this analysis, KMA assumed the Rims II Direct Effect Multipliers for accommodations and retail.[3] The direct, indirect and induced employment generated by the Project is projected to be 1,320 jobs. This estimate would reflect the total part-time and full-time employment generated by the Project. According to the Bureau of Economic Analysis, which prepares the RIMS II Multiplier, the ratio of Full-Time Equivalent (FTE) Employment to Total Employment in the Accommodations sector is .89 and .85 for retail trade.[4] Therefore, the FTEs for the Project are 1,170.

Construction Employment

The Project will generate a number of temporary, direct, indirect and induced construction jobs while being built. Based on the proposed hard costs and the Los Angeles County RIMS II construction employment multiplier, KMA estimates the Project will generate 3,190 construction related jobs while being built.[5]

CONCLUSION

The City identified three issues for KMA to review and evaluate. The first issue was to evaluate the financial feasibility of the Project, including an estimate of the Project's feasibility gap. Second, the City wished to identify the incremental site-specific public revenues and net new revenues that would be generated by the Project. Third, the City requested employment estimates for the Project.

With respect to Project feasibility, KMA reviewed the development costs and potential operating revenues of the Project. Projected development costs are above average for a hotel of this type. However, the Project's construction type, building height and location are all expected to increase the Project costs. The Project is expected to perform at levels consistent with other better performing hotels in the Downtown market in terms of ADR and occupancy levels. However, given the overall development costs, revenues, and anticipated rate of return, the Project is currently infeasible. KMA estimates the feasibility gap at approximately $67.4 million.

KMA evaluated the site-specific revenues and the net new revenues of the Project. The net present value (NPV) of the site-specific revenues is $160.3 million. The NPV of the incremental public revenues generated by the Project is $158.0 million, taking into account the existing property, sales and parking tax revenues generated by the site. Only 50% of the net new revenues are available for assistance to the Project, approximately $79.0 million. The Project subsidy is determined by the lesser of the

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[3] RIMS II Multipliers (2007/2015) for Los Angeles County.
[4] U.S. Department of Commerce - Bureau of Economic Analysis
[5] RIMS II Multipliers (2007/2015) for Los Angeles County.

available public revenues or the Project feasibility gap; therefore, the Project subsidy is $67.4 million. After the subsidy, the incremental City revenues generated by the Project will have a nominal value of $384.8 million and present value of $90.6 million.

The Project is estimated to generate a significant amount of employment. On-site, approximately 754 hotel jobs are anticipated plus 50 commercial jobs. Based on the relevant multipliers, the direct, indirect and induced employment generated by the Project is 1,300 full and part-time jobs (1,160 FTEs). During construction, the Project is projected to generate 3,490 temporary jobs.

Attachments

SUMMARY TABLE 1

PUBLIC REVENUES PROJECTIONS
PICO & FIGUEROA HOTELS
LOS ANGELES, CALIFORNIA

Project Year		Transient Occupancy Tax [1]	City Share of Property Tax [2]	On-Site Sales Tax [3]	Gross Receipts Tax [4]	Utility User Tax [5]	Parking Tax [6]	Gross Public Revenues
Const.	2017 -18	-	-	-	-	-	-	-
Const.	2018 -19	-	$597,000	$205,000	$165,000	-	-	967,000
Const.	2019 -20	-	1,206,000	205,000	165,000	-	-	1,576,000
1	2020 -21	$10,401,000	1,230,000	155,000	146,000	$238,000	$534,000	12,704,000
2	2021 -22	11,600,000	1,254,000	166,000	161,000	276,000	595,000	14,052,000
3	2022 -23	12,558,000	1,279,000	176,000	174,000	300,000	644,000	15,131,000
4	2023 -24	12,919,000	1,305,000	181,000	180,000	325,000	663,000	15,573,000
5	2024 -25	13,307,000	1,331,000	186,000	185,000	335,000	683,000	16,027,000
6	2025 -26	13,640,000	1,358,000	192,000	188,000	345,000	700,000	16,423,000
7	2026 -27	13,980,000	1,385,000	197,000	194,000	355,000	717,000	16,828,000
8	2027 -28	14,331,000	1,413,000	202,000	199,000	366,000	735,000	17,246,000
9	2028 -29	14,689,000	1,441,000	208,000	203,000	377,000	754,000	17,672,000
10	2029 -30	15,056,000	1,470,000	213,000	209,000	388,000	773,000	18,109,000
11	2030 -31	15,432,000	1,499,000	219,000	214,000	400,000	792,000	18,556,000
12	2031 -32	15,818,000	1,529,000	225,000	220,000	412,000	812,000	19,016,000
13	2032 -33	16,214,000	1,560,000	231,000	225,000	424,000	832,000	19,486,000
14	2033 -34	16,618,000	1,591,000	238,000	231,000	437,000	853,000	19,968,000
15	2034 -35	17,034,000	1,623,000	244,000	237,000	450,000	874,000	20,462,000
16	2035 -36	17,460,000	1,655,000	251,000	242,000	464,000	896,000	20,968,000
17	2036 -37	17,897,000	1,688,000	258,000	250,000	478,000	918,000	21,489,000
18	2037 -38	18,344,000	1,722,000	265,000	256,000	492,000	941,000	22,020,000
19	2038 -39	18,803,000	1,756,000	272,000	262,000	507,000	965,000	22,565,000
20	2039 -40	19,273,000	1,792,000	280,000	268,000	522,000	989,000	23,124,000
21	2040 -41	19,755,000	1,827,000	287,000	275,000	538,000	1,014,000	23,696,000
22	2041 -42	20,249,000	1,864,000	295,000	282,000	554,000	1,039,000	24,283,000
23	2042 -43	20,755,000	1,901,000	303,000	290,000	571,000	1,065,000	24,885,000
24	2043 -44	21,274,000	1,939,000	311,000	296,000	588,000	1,092,000	25,500,000
25	2044 -45	21,806,000	1,978,000	320,000	305,000	606,000	1,119,000	26,134,000
25 Year Term								
Nominal Total		$409,213,000	$41,193,000	$6,285,000	$6,022,000	$10,748,000	$20,999,000	$494,460,000
Net Present Value @ 10%		$130,983,000	$14,847,000	$2,279,000	$2,151,000	$3,339,000	$6,721,000	$160,320,000

[1] See ATTACHMENT 2 - TABLE 1A and ATTACHMENT 2 - TABLE 1B.
[2] See ATTACHMENT 2 - TABLE 2.
[3] See ATTACHMENT 2 - TABLE 3A and ATTACHMENT 2 - TABLE 3B.
[4] See ATTACHMENT 2 - TABLE 4A and ATTACHMENT 2 - TABLE 4B.
[5] See ATTACHMENT 2 - TABLE 5A and ATTACHMENT 2 - TABLE 5B.
[6] See ATTACHMENT 2 - TABLE 6.

Prepared by: Keyser Marston Associates, Inc.
Filename; Lightstone Hotel 8-3;SumRevenues; DP

SUMMARY TABLE 2

NET NEW PUBLIC REVENUES
PICO & FIGUEROA HOTELS
LOS ANGELES, CALIFORNIA

Project Year			Gross Public Revenues	(Less) Annual Base Period *Amount* [1]	Net New City Revenues	50% of Net New City Revenues	Assistance Payments @ 100% TOT Revenues	Net New City Revenues After Subsidy
Const.	2017	-18	-	-	-	-		-
Const.	2018	-19	$967,000	($174,000)	$793,000	$397,000	-	$793,000
Const.	2019	-20	1,576,000	(178,000)	1,398,000	699,000	-	1,398,000
1	2020	-21	12,704,000	(182,000)	12,522,000	6,261,000	10,401,000	2,121,000
2	2021	-22	14,052,000	(186,000)	13,866,000	6,933,000	11,600,000	2,266,000
3	2022	-23	15,131,000	(190,000)	14,941,000	7,471,000	12,558,000	2,383,000
4	2023	-24	15,573,000	(194,000)	15,379,000	7,690,000	12,919,000	2,460,000
5	2024	-25	16,027,000	(198,000)	15,829,000	7,915,000	13,307,000	2,522,000
6	2025	-26	16,423,000	(202,000)	16,221,000	8,111,000	13,640,000	2,581,000
7	2026	-27	16,828,000	(206,000)	16,622,000	8,311,000	13,980,000	2,642,000
8	2027	-28	17,246,000	(211,000)	17,035,000	8,518,000	14,938,524	2,096,476
9	2028	-29	17,672,000	(216,000)	17,456,000	8,728,000	-	17,456,000
10	2029	-30	18,109,000	(221,000)	17,888,000	8,944,000	-	17,888,000
11	2030	-31	18,556,000	(226,000)	18,330,000	9,165,000	-	18,330,000
12	2031	-32	19,016,000	(231,000)	18,785,000	9,393,000	-	18,785,000
13	2032	-33	19,486,000	(236,000)	19,250,000	9,625,000	-	19,250,000
14	2033	-34	19,968,000	(241,000)	19,727,000	9,864,000	-	19,727,000
15	2034	-35	20,462,000	(246,000)	20,216,000	10,108,000	-	20,216,000
16	2035	-36	20,968,000	(251,000)	20,717,000	10,359,000	-	20,717,000
17	2036	-37	21,489,000	(256,000)	21,233,000	10,617,000	-	21,233,000
18	2037	-38	22,020,000	(261,000)	21,759,000	10,880,000	-	21,759,000
19	2038	-39	22,565,000	(266,000)	22,299,000	11,150,000	-	22,299,000
20	2039	-40	23,124,000	(272,000)	22,852,000	11,426,000	-	22,852,000
21	2040	-41	23,696,000	(278,000)	23,418,000	11,709,000	-	23,418,000
22	2041	-42	24,283,000	(284,000)	23,999,000	12,000,000	-	23,999,000
23	2042	-43	24,885,000	(290,000)	24,595,000	12,298,000	-	24,595,000
24	2043	-44	25,500,000	(296,000)	25,204,000	12,602,000	-	25,204,000
25	2044	-45	26,134,000	(302,000)	25,832,000	12,916,000	-	25,832,000
25 Year Term								
Nominal Total			$494,460,000	($6,294,000)	$488,166,000	$244,090,000	$103,343,524	$384,822,476
NPV @ 10%			$160,320,000	($2,307,000)	$158,013,000	$79,010,000	$67,406,000	$90,607,000

[1] Based on estimates provided by City.

Prepared by: Keyser Marston Associates, Inc.
Filename; Lightstone Hotel 8-3;Summary; DP

Attachment 1

Project Pro Forma

Prepared By: Keyser Marston Associates; Inc.
Filename: Lightstone Hotel 8-3; KMA; 11/16/2017; KEE

ATTACHMENT 1 - TABLE 1

ESTIMATED CONSTRUCTION COSTS
1,130 ROOM PICO & FIGUEROA HOTELS
KMA SCENARIO
LOS ANGELES, CALIFORNIA

I.	**Land Acquisition**						
	Private Parcels	34,768	SF of Land	$900	/SF	$31,291,000	
	City Parcel	15,359	SF of Land	$628	/SF	$9,646,000	
	Alley	6,420	SF of Land	$0	/SF	$0	
	Total Land Cost	56,547	SF of Land				$40,937,000
II.	**Direct Costs**						
	Site Improvements	1,130	Rooms	$0	/Room	$0	
	LED Sign	$14,133,393	Allowance			14,133,000	
	Parking	353	Spaces	$91,300	/Space	32,241,000	
	Project Commercial	17,200	Sq. Feet	$255	/SF	4,383,000	
	Hotel FF&E	1,130	Rooms	$27,000	/Room	30,517,000	
	Hotel Shell	1,130	Rooms	$203,900	/Room	230,382,000	
	Direct Construction Costs					$311,656,000	
	Construction Overhead/Contingency	5.0%	Direct Costs	$13,800	/Room	$15,583,000	
	Total Direct Costs						$327,239,000
III.	**Indirect Costs**						
	Architecture, Eng. & Consulting	7.0%	Direct Cost			$22,907,000	
	Permits & Fees/Impact Fees	1,130	Rooms	$3,131	/Room	3,538,000	
	Taxes, Ins, Legal & Acctg	2.0%	Direct Cost			6,545,000	
	Pre Opening/Working Capital	1,130	Rooms	$2,794	/Room	3,157,000	
	Development Management	4.0%	Direct Costs			13,090,000	
	Contingency Allowance	5.0%	Indirect Costs			2,462,000	
	Total Indirect Costs						$51,699,000
IV.	**Financing Costs**						
	Construction Interest	$249,742,900	Costs	6.00%	Interest	$24,725,000	
	Loan Fees	3.00	Points			9,553,000	
	Total Financing Costs						$34,278,000
V.	**Total Construction Costs**						$454,153,000
						Per Room	$402,000

[1] Assumes 55% Loan to Cost, 36 month construction period and 55% average outstanding balance.

Prepared By: Keyser Marston Associates; Inc.
Filename: Lightstone Hotel 8-3; KMA; 11/16/2017; KEE

ATTACHMENT 1 - TABLE 2A - AC HOTEL

ESTIMATED STABILIZED NET INCOME[1]
410 ROOM AC HOTEL
KMA SCENARIO
LOS ANGELES, CALIFORNIA

I.	**Income**						
	Rooms	410	Rooms	$240	/Room	$28,014,000	
	Signage	0.0%	Gross Sales	$0	/Room	0	
	Food & Beverage	9.7%	Gross Sales	$9,110	/Room	3,735,000	
	Rentals & Other Income	9.6%	Gross Sales	$9,020	/Room	3,700,000	
	Parking	5.1%	Gross Sales	$4,770	/Room	1,955,000	
	Other	2.5%	Gross Sales	$2,350	/Room	963,000	
	Gross Hotel Revenues						$38,367,000
II.	**Distributed Expenses**						
	Rooms	20.2%	of Dept. Sales	$13,800	/Room	$5,659,000	
	Signage	0.0%	of Dept. Sales	$0	/Room	0	
	Food & Beverage	80.0%	of Dept. Sales	$7,290	/Room	2,988,000	
	Rentals & Other Income	0.0%	of Dept. Sales	$0	/Room	0	
	Parking	30.0%	of Dept. Sales	$1,430	/Room	587,000	
	Other	30.0%	of Dept. Sales	$700	/Room	289,000	
	(Less)Total Distributed Expenses						($9,523,000)
III.	**Undistributed Expenses**						
	General & Administration	8.0%	Gross Revenues	$7,490	/Room	$3,069,000	
	Franchise Fees	0.0%	Gross Revenues	$0	/Room	0	
	Marketing	12.3%	Gross Revenues	$11,500	/Room	4,715,000	
	Utilities	1.7%	Gross Revenues	$1,600	/Room	656,000	
	Maintenance & Property Operation	3.0%	Gross Revenues	$2,800	/Room	1,150,000	
	Equipment Rental	0.0%	Gross Revenues	$0	/Room	0	
	(Less)Total Undistributed Expenses						($9,590,000)
IV.	**Management Fees**	3.0%	Gross Revenues	$2,810	/Room		($1,151,000)
V.	**Fixed Expenses**						
	Taxes	0.4%	Costs	$4,420	/Room	$1,812,000	
	Insurance	1.1%	Gross Revenues	$1,000	/Room	410,000	
	FF&E Reserves	5.0%	Gross Revenues	$4,680	/Room	1,918,000	
	(Less) Total Fixed Expenses						($4,140,000)
VI.	**Net Operating Income (NOI)**	36.4%	Gross Revenues				$13,963,000

[1] Assumes stabilization in year 3 of operation and 78% occupancy.

Prepared By: Keyser Marston Associates; Inc.
Filename: Lightstone Hotel 8-3; KMA; 11/16/2017; KEE

ATTACHMENT 1 - TABLE 2B - MOXY HOTEL

ESTIMATED STABILIZED NET INCOME[1]
410 ROOM MOXY HOTEL
KMA SCENARIO
LOS ANGELES, CALIFORNIA

I.	**Income**				
	Rooms	410 Rooms	$225 /Room	$26,264,000	
	Signage	0.0% Gross Sales	$0 /Room	0	
	Food & Beverage	7.4% Gross Sales	$5,700 /Room	2,335,000	
	Rentals & Other Income	0.0% Gross Sales	$0 /Room	0	
	Parking	6.2% Gross Sales	$4,770 /Room	1,955,000	
	Other	3.1% Gross Sales	$2,350 /Room	963,000	
	Gross Hotel Revenues				$31,517,000
II.	**Distributed Expenses**				
	Rooms	20.2% of Dept. Sales	$12,940 /Room	$5,305,000	
	Signage	0.0% of Dept. Sales	$0 /Room	0	
	Food & Beverage	78.0% of Dept. Sales	$4,440 /Room	1,821,000	
	Rentals & Other Income	0.0% of Dept. Sales	$0 /Room	0	
	Parking	30.0% of Dept. Sales	$1,430 /Room	587,000	
	Other	30.0% of Dept. Sales	$700 /Room	289,000	
	(Less)Total Distributed Expenses				($8,002,000)
III.	**Undistributed Expenses**				
	General & Administration	8.0% Gross Revenues	$6,150 /Room	$2,521,000	
	Franchise Fees	0.0% Gross Revenues	$0 /Room	0	
	Marketing	11.7% Gross Revenues	$9,000 /Room	3,690,000	
	Utilities	2.0% Gross Revenues	$1,500 /Room	615,000	
	Maintenance & Property Operation	3.0% Gross Revenues	$2,300 /Room	945,000	
	Equipment Rental	0.0% Gross Revenues	$0 /Room	0	
	(Less)Total Undistributed Expenses				($7,771,000)
IV.	**Management Fees**	3.0% Gross Revenues	($2,310) /Room		($946,000)
V.	**Fixed Expenses**				
	Taxes	0.4% Costs	$4,420 /Room	$1,812,000	
	Insurance	0.8% Gross Revenues	$600 /Room	246,000	
	FF&E Reserves	5.0% Gross Revenues	$3,840 /Room	1,576,000	
	(Less) Total Fixed Expenses				($3,634,000)
VI.	**Net Operating Income (NOI)**	35.4% Gross Revenues			$11,164,000

[1] Assumes stabilization in year 3 of operation and 78% occupancy.

Prepared By: Keyser Marston Associates; Inc.
Filename: Lightstone Hotel 8-3; KMA; 11/16/2017; KEE

ATTACHMENT 1 - TABLE 2C - HILTON GARDEN INN HOTEL

ESTIMATED STABILIZED NET INCOME[1]
310 ROOM HILTON GARDEN INN HOTEL
KMA SCENARIO
LOS ANGELES, CALIFORNIA

I.	**Income**					
	Rooms	310 Rooms	$235	/Room	$20,740,000	
	Signage	0.0% Gross Sales	$0	/Room	0	
	Food & Beverage	7.1% Gross Sales	$5,690	/Room	1,765,000	
	Rentals & Other Income	0.0% Gross Sales	$0	/Room	0	
	Parking	6.0% Gross Sales	$4,770	/Room	1,478,000	
	Other	2.9% Gross Sales	$2,350	/Room	728,000	
	Gross Hotel Revenues					$24,711,000
II.	**Distributed Expenses**					
	Rooms	20.2% of Dept. Sales	$13,510	/Room	$4,189,000	
	Signage	0.0% of Dept. Sales	$0	/Room	0	
	Food & Beverage	85.0% of Dept. Sales	$4,840	/Room	1,500,000	
	Rentals & Other Income	0.0% of Dept. Sales	$0	/Room	0	
	Parking	30.0% of Dept. Sales	$1,430	/Room	443,000	
	Other	30.0% of Dept. Sales	$700	/Room	218,000	
	(Less)Total Distributed Expenses					($6,350,000)
III.	**Undistributed Expenses**					
	General & Administration	8.0% Gross Revenues	$6,380	/Room	$1,977,000	
	Franchise Fees	0.0% Gross Revenues	$0	/Room	0	
	Marketing	11.3% Gross Revenues	$9,000	/Room	2,790,000	
	Utilities	2.0% Gross Revenues	$1,600	/Room	496,000	
	Maintenance & Property Operation	3.0% Gross Revenues	$2,390	/Room	740,000	
	Equipment Rental	0.0% Gross Revenues	$0	/Room	0	
	(Less)Total Undistributed Expenses					($6,003,000)
IV.	**Management Fees**	3.0% Gross Revenues	($2,390)	/Room		($741,000)
V.	**Fixed Expenses**					
	Taxes	0.3% Costs	$4,420	/Room	$1,370,000	
	Insurance	1.3% Gross Revenues	$1,000	/Room	310,000	
	FF&E Reserves	4.0% Gross Revenues	$3,190	/Room	988,000	
	(Less) Total Fixed Expenses					($2,668,000)
VI.	**Net Operating Income (NOI)**	36.2% Gross Revenues				$8,949,000

[1] Assumes stabilization in year 3 of operation and 78% occupancy.

Prepared By: Keyser Marston Associates; Inc.
Filename: Lightstone Hotel 8-3; KMA; 11/16/2017; KEE

ATTACHMENT 1 - TABLE 3

ESTIMATED PROJECT SURPLUS / FEASIBILITY GAP
1,130 ROOM PICO & FIGUEROA HOTELS
KMA SCENARIO
LOS ANGELES, CALIFORNIA

------------------------Return on Total Investment------------------------

I.	**Hotel NOI**				$34,076,000
II.	**Other Revenue Sources**				
	Signage Income	$2,665,000 Allowance		$2,665,000	
	Total Other Income				$2,665,000
III.	**Total Project NOI**				$36,741,000
IV.	**Total Warranted Investment**		9.50% Return on Costs		
	Total Warranted Investment				$386,747,000
	(Less) Development Costs				($454,153,000)
V.	**Estimated Project Surplus / Feasibility Gap**				**($67,406,000)**

------------------------ Profit Margin Analysis ------------------------

I.	**Total Project NOI**			$36,741,000
II.	**Total Stabilized Value**			
	Value at Stabilization		7.50% Capitalization Rate	$489,880,000
	(Less) Development Costs			($454,153,000)
III.	**Developer Profit Before Assistance**			$35,727,000
	Share of Costs			7.9%
IV.	**Estimated Project Surplus / Feasibility Gap @ 22.5% Profit on Costs**			**($66,457,000)**

Prepared By: Keyser Marston Associates; Inc.
Filename: Lightstone Hotel 8-3; KMA; 11/16/2017; KEE

Attachment 1

Project Public Revenues

Prepared by: Keyser Marston Associates, Inc.
Filename; Lightstone Hotel 8-3;TOT-AC; DP

ATTACHMENT 2 - TABLE 1A

TRANSIENT OCCUPANCY TAX
AC HOTEL COMPONENT
PICO & FIGUEROA HOTELS
LOS ANGELES, CALIFORNIA

Project Year		Average Daily Rate [1]	Stabilized Occupancy Rate	Annual Room Revenues [2]	TOT Revenues [3]
1	2020 -21	$270.00	68%	$27,476,000	$3,847,000
2	2021 -22	$278.00	74%	30,786,000	4,310,000
3	2022 -23	$287.00	78%	33,501,000	4,690,000
4	2023 -24	$295.00	78%	34,434,000	4,821,000
5	2024 -25	$304.00	78%	35,485,000	4,968,000
6	2025 -26	$311.60	78%	36,372,000	5,092,000
7	2026 -27	$319.39	78%	37,281,000	5,219,000
8	2027 -28	$327.37	78%	38,213,000	5,350,000
9	2028 -29	$335.56	78%	39,169,000	5,484,000
10	2029 -30	$343.95	78%	40,148,000	5,621,000
11	2030 -31	$352.55	78%	41,152,000	5,761,000
12	2031 -32	$361.36	78%	42,181,000	5,905,000
13	2032 -33	$370.39	78%	43,235,000	6,053,000
14	2033 -34	$379.65	78%	44,316,000	6,204,000
15	2034 -35	$389.15	78%	45,424,000	6,359,000
16	2035 -36	$398.87	78%	46,559,000	6,518,000
17	2036 -37	$408.85	78%	47,723,000	6,681,000
18	2037 -38	$419.07	78%	48,916,000	6,848,000
19	2038 -39	$429.54	78%	50,139,000	7,019,000
20	2039 -40	$440.28	78%	51,393,000	7,195,000
21	2040 -41	$451.29	78%	52,678,000	7,375,000
22	2041 -42	$462.57	78%	53,995,000	7,559,000
23	2042 -43	$474.14	78%	55,345,000	7,748,000
24	2043 -44	$485.99	78%	56,728,000	7,942,000
25	2044 -45	$498.14	78%	58,146,000	8,140,000

25 Year Term

Nominal Total	$152,709,000
Net Present Value @ 10%	$48,849,000

[1] Based on CBRE projections dated 7/2016. Assumes long term annual inflation rate of 2.5%.
[2] Assumes 410 keys and 365 annual room nights per key.
[3] Based on a 14.0% tax rate.

Prepared by: Keyser Marston Associates, Inc.
Filename; Lightstone Hotel 8-3;TOT-AC; DP

ATTACHMENT 2 - TABLE 1B

TRANSIENT OCCUPANCY TAX
MOXY HOTEL COMPONENT
PICO & FIGUEROA HOTELS
LOS ANGELES, CALIFORNIA

Project Year		Average Daily Rate [1]	Stabilized Occupancy Rate	Annual Room Revenues [2]	TOT Revenues [3]
1	2020 -21	$253.00	70%	$26,503,000	$3,710,000
2	2021 -22	$261.00	75%	29,294,000	4,101,000
3	2022 -23	$269.00	78%	31,400,000	4,396,000
4	2023 -24	$277.00	78%	32,333,000	4,527,000
5	2024 -25	$285.00	78%	33,267,000	4,657,000
6	2025 -26	$292.13	78%	34,099,000	4,774,000
7	2026 -27	$299.43	78%	34,951,000	4,893,000
8	2027 -28	$306.91	78%	35,825,000	5,016,000
9	2028 -29	$314.59	78%	36,721,000	5,141,000
10	2029 -30	$322.45	78%	37,639,000	5,269,000
11	2030 -31	$330.51	78%	38,580,000	5,401,000
12	2031 -32	$338.78	78%	39,544,000	5,536,000
13	2032 -33	$347.24	78%	40,533,000	5,675,000
14	2033 -34	$355.93	78%	41,546,000	5,816,000
15	2034 -35	$364.82	78%	42,585,000	5,962,000
16	2035 -36	$373.94	78%	43,649,000	6,111,000
17	2036 -37	$383.29	78%	44,741,000	6,264,000
18	2037 -38	$392.88	78%	45,859,000	6,420,000
19	2038 -39	$402.70	78%	47,006,000	6,581,000
20	2039 -40	$412.76	78%	48,181,000	6,745,000
21	2040 -41	$423.08	78%	49,385,000	6,914,000
22	2041 -42	$433.66	78%	50,620,000	7,087,000
23	2042 -43	$444.50	78%	51,885,000	7,264,000
24	2043 -44	$455.62	78%	53,183,000	7,446,000
25	2044 -45	$467.01	78%	54,512,000	7,632,000
25 Year Term					
Nominal Total					$143,338,000
Net Present Value @ 10%					$45,944,000

1 Based on CBRE projections dated 7/2016. Assumes long term annual inflation rate of 2.5%.
2 Assumes 410 keys and 365 annual room nights per key.
3 Based on a 14.0% tax rate.

Prepared by: Keyser Marston Associates, Inc.
Filename; Lightstone Hotel 8-3;TOT-MX; DP

ATTACHMENT 2 - TABLE 1C

TRANSIENT OCCUPANCY TAX
HILTON GARDEN INN COMPONENT
PICO & FIGUEROA HOTELS
LOS ANGELES, CALIFORNIA

Project Year		Average Daily Rate [1]	Stabilized Occupancy Rate	Annual Room Revenues [2]	TOT Revenues [3]
1	2020 -21	$264.00	68%	$20,313,000	$2,844,000
2	2021 -22	$272.00	74%	22,775,000	3,189,000
3	2022 -23	$281.00	78%	24,800,000	3,472,000
4	2023 -24	$289.00	78%	25,506,000	3,571,000
5	2024 -25	$298.00	78%	26,301,000	3,682,000
6	2025 -26	$305.45	78%	26,958,000	3,774,000
7	2026 -27	$313.09	78%	27,632,000	3,868,000
8	2027 -28	$320.91	78%	28,323,000	3,965,000
9	2028 -29	$328.94	78%	29,031,000	4,064,000
10	2029 -30	$337.16	78%	29,757,000	4,166,000
11	2030 -31	$345.59	78%	30,501,000	4,270,000
12	2031 -32	$354.23	78%	31,263,000	4,377,000
13	2032 -33	$363.08	78%	32,045,000	4,486,000
14	2033 -34	$372.16	78%	32,846,000	4,598,000
15	2034 -35	$381.47	78%	33,667,000	4,713,000
16	2035 -36	$391.00	78%	34,509,000	4,831,000
17	2036 -37	$400.78	78%	35,371,000	4,952,000
18	2037 -38	$410.80	78%	36,256,000	5,076,000
19	2038 -39	$421.07	78%	37,162,000	5,203,000
20	2039 -40	$431.59	78%	38,091,000	5,333,000
21	2040 -41	$442.38	78%	39,043,000	5,466,000
22	2041 -42	$453.44	78%	40,019,000	5,603,000
23	2042 -43	$464.78	78%	41,020,000	5,743,000
24	2043 -44	$476.40	78%	42,045,000	5,886,000
25	2044 -45	$488.31	78%	43,097,000	6,034,000
25 Year Term					
Nominal Total					$113,166,000
Net Present Value @ 10%					$36,189,000

[1] Based on CBRE projections dated 7/2016. Assumes long term annual inflation rate of 2.5%.
[2] Assumes 310 keys and 365 annual room nights per key.
[3] Based on a 14.0% tax rate.

Prepared by: Keyser Marston Associates, Inc.
Filename; Lightstone Hotel 8-3;TOT-HG; DP

ATTACHMENT 2 - TABLE 2

CITY SHARE OF PROPERTY TAX
PICO & FIGUEROA HOTELS
LOS ANGELES, CALIFORNIA

Project Year		Total Assessed Value [1]	Property Tax Revenues [2]
Const.	2017 -18	-	-
Const.	2018 -19	$227,077,000	$597,000
Const.	2019 -20	458,695,000	1,206,000
1	2020 -21	467,869,000	1,230,000
2	2021 -22	477,226,000	1,254,000
3	2022 -23	486,771,000	1,279,000
4	2023 -24	496,506,000	1,305,000
5	2024 -25	506,436,000	1,331,000
6	2025 -26	516,565,000	1,358,000
7	2026 -27	526,896,000	1,385,000
8	2027 -28	537,434,000	1,413,000
9	2028 -29	548,183,000	1,441,000
10	2029 -30	559,147,000	1,470,000
11	2030 -31	570,330,000	1,499,000
12	2031 -32	581,737,000	1,529,000
13	2032 -33	593,372,000	1,560,000
14	2033 -34	605,239,000	1,591,000
15	2034 -35	617,344,000	1,623,000
16	2035 -36	629,691,000	1,655,000
17	2036 -37	642,285,000	1,688,000
18	2037 -38	655,131,000	1,722,000
19	2038 -39	668,234,000	1,756,000
20	2039 -40	681,599,000	1,792,000
21	2040 -41	695,231,000	1,827,000
22	2041 -42	709,136,000	1,864,000
23	2042 -43	723,319,000	1,901,000
24	2043 -44	737,785,000	1,939,000
25	2044 -45	752,541,000	1,978,000
25 Year Term			
Nominal Total			41,193,000
Net Present Value @ 10%			14,847,000

[1] Based on an assessed value of $454,153,000. Assumes cumulative construction phasing of 0% in 2017-18; 50% in 2018-19; and 100% in 2019-20. Assessed value inflates at 2.0% annually.

[2] Based on a 1% general levy and a city share of 26.3%. Calculation does not include voter-approved indebtedness or special assessments.

Prepared by: Keyser Marston Associates, Inc.
Filename; Lightstone Hotel 8-3;Prop; DP

ATTACHMENT 2 - TABLE 3A

ON-SITE SALES TAX PROJECTION
PICO & FIGUEROA HOTELS
LOS ANGELES, CALIFORNIA

Project Year		Construction Taxable Sales [1]	Hotel Taxable Sales [2]	Leased Retail Taxable Sales [3]	Total Taxable Sales	City Sales Tax Revenues [4]
Const.	2017 -18	-	-	-	$0	$0
Const.	2018 -19	$20,452,000	-	-	20,452,000	205,000
Const.	2019 -20	20,452,000	-	-	20,452,000	205,000
1	2020 -21	-	$7,748,000	$7,744,000	15,492,000	155,000
2	2021 -22	-	8,647,000	7,976,000	16,623,000	166,000
3	2022 -23	-	9,370,000	8,215,000	17,585,000	176,000
4	2023 -24	-	9,637,000	8,461,000	18,098,000	181,000
5	2024 -25	-	9,927,000	8,715,000	18,642,000	186,000
6	2025 -26	-	10,175,000	8,976,000	19,151,000	192,000
7	2026 -27	-	10,430,000	9,244,000	19,674,000	197,000
8	2027 -28	-	10,690,000	9,521,000	20,211,000	202,000
9	2028 -29	-	10,958,000	9,808,000	20,766,000	208,000
10	2029 -30	-	11,231,000	10,102,000	21,333,000	213,000
11	2030 -31	-	11,512,000	10,405,000	21,917,000	219,000
12	2031 -32	-	11,800,000	10,717,000	22,517,000	225,000
13	2032 -33	-	12,095,000	11,039,000	23,134,000	231,000
14	2033 -34	-	12,397,000	11,370,000	23,767,000	238,000
15	2034 -35	-	12,707,000	11,711,000	24,418,000	244,000
16	2035 -36	-	13,025,000	12,062,000	25,087,000	251,000
17	2036 -37	-	13,351,000	12,424,000	25,775,000	258,000
18	2037 -38	-	13,685,000	12,797,000	26,482,000	265,000
19	2038 -39	-	14,027,000	13,181,000	27,208,000	272,000
20	2039 -40	-	14,378,000	13,576,000	27,954,000	280,000
21	2040 -41	-	14,737,000	13,983,000	28,720,000	287,000
22	2041 -42	-	15,105,000	14,402,000	29,507,000	295,000
23	2042 -43	-	15,483,000	14,834,000	30,317,000	303,000
24	2043 -44	-	15,870,000	15,279,000	31,149,000	311,000
25	2044 -45	-	16,267,000	15,737,000	32,004,000	320,000
25 Year Term						
Nominal Total			$305,252,000	$282,279,000	$628,435,000	$6,285,000
Net Present Value @ 10%			$97,697,000	$89,234,000	$227,836,000	$2,279,000

1 Based on a direct construction cost of $327,239,000. Assumes a materials share of 50%; a taxable share of 50% ; and 50% of sales taking place within city limits.

2 See ATTACHMENT 2 - TABLE 3B for details on taxable sales during operations. Long term inflation rate is set at 2.5%.

3 Based on a 17,200 square feet of retail and Year 1 taxable sales of $450 per square foot. Inflates at 3.0% annually.

4 Assumes a 1% city share.

Prepared by: Keyser Marston Associates, Inc.
Filename; Lightstone Hotel 8-3;OnSiteSales_Proj; DP

ATTACHMENT 2 - TABLE 3B
TAXABLE ON-SITE SALES CALCULATION[1]
PICO & FIGUEROA HOTELS
LOS ANGELES, CALIFORNIA

I. AC Hotel - Taxable Sales from Operations

Year	Food & Beverage	Hotel Retail	Total
2020 -21	$3,663,000	$0	$3,663,000
2021 -22	$4,105,000	$0	$4,105,000
2022 -23	$4,467,000	$0	$4,467,000
2023 -24	$4,591,000	$0	$4,591,000
2024 -25	$4,731,000	$0	$4,731,000
2025 -26	$4,849,000	$0	$4,849,000
2026 -27	$4,971,000	$0	$4,971,000
2027 -28	$5,095,000	$0	$5,095,000
2028 -29	$5,222,000	$0	$5,222,000
2029 -30	$5,353,000	$0	$5,353,000

II. Moxy Hotel - Taxable Sales from Operations

Year	Food & Beverage	Hotel Retail	Total
2020 -21	$2,356,000	$0	$2,356,000
2021 -22	$2,604,000	$0	$2,604,000
2022 -23	$2,792,000	$0	$2,792,000
2023 -24	$2,875,000	$0	$2,875,000
2024 -25	$2,958,000	$0	$2,958,000
2025 -26	$3,032,000	$0	$3,032,000
2026 -27	$3,107,000	$0	$3,107,000
2027 -28	$3,185,000	$0	$3,185,000
2028 -29	$3,265,000	$0	$3,265,000
2029 -30	$3,346,000	$0	$3,346,000

II. Hilton Garden Inn - Taxable Sales from Operations

Year	Food & Beverage	Hotel Retail	Total
2020 -21	$1,729,000	$0	$1,729,000
2021 -22	$1,938,000	$0	$1,938,000
2022 -23	$2,111,000	$0	$2,111,000
2023 -24	$2,171,000	$0	$2,171,000
2024 -25	$2,238,000	$0	$2,238,000
2025 -26	$2,294,000	$0	$2,294,000
2026 -27	$2,352,000	$0	$2,352,000
2027 -28	$2,410,000	$0	$2,410,000
2028 -29	$2,471,000	$0	$2,471,000
2029 -30	$2,532,000	$0	$2,532,000

III. Total Project - Taxable Sales from Operations

Year	Courtyard	Residence Inn	Hilton Garden	Total
2020 -21	$3,663,000	$2,356,000	$1,729,000	$7,748,000
2021 -22	$4,105,000	$2,604,000	$1,938,000	$8,647,000
2022 -23	$4,467,000	$2,792,000	$2,111,000	$9,370,000
2023 -24	$4,591,000	$2,875,000	$2,171,000	$9,637,000
2024 -25	$4,731,000	$2,958,000	$2,238,000	$9,927,000
2025 -26	$4,849,000	$3,032,000	$2,294,000	$10,175,000
2026 -27	$4,971,000	$3,107,000	$2,352,000	$10,430,000
2027 -28	$5,095,000	$3,185,000	$2,410,000	$10,690,000
2028 -29	$5,222,000	$3,265,000	$2,471,000	$10,958,000
2029 -30	$5,353,000	$3,346,000	$2,532,000	$11,231,000

[1] Based on CBRE projections dated 7/2016.

Prepared by: Keyser Marston Associates, Inc.
Filename; Lightstone Hotel 8-3;Sales_Detail; DP

ATTACHMENT 2 - TABLE 4A
GROSS RECEIPTS TAX PROJECTION [1]
PICO & FIGUEROA HOTELS
LOS ANGELES, CALIFORNIA

	Year	Hotel Revenues [2]	Tax Per $1,000	Parking Revenues [4]	Tax Per $1,000	Commercial Sales Revenues [5]	Tax Per $1,000	Total Gross Receipts Tax
Const.	2017 -18	$0	$0	-	-	-	-	$0
Const.	2018 -19	163,620,000 [3]	165,000	-	-	-	-	165,000
Const.	2019 -20	163,620,000 [3]	165,000	-	-	-	-	165,000
1	2020 -21	85,598,000	109,000	$5,339,000	$27,000	$7,744,000	$10,000	146,000
2	2021 -22	95,390,000	121,000	5,953,000	30,000	7,976,000	10,000	161,000
3	2022 -23	103,231,000	131,000	6,442,000	33,000	8,215,000	10,000	174,000
4	2023 -24	106,191,000	135,000	6,628,000	34,000	8,461,000	11,000	180,000
5	2024 -25	109,390,000	139,000	6,826,000	35,000	8,715,000	11,000	185,000
6	2025 -26	112,129,000	142,000	6,997,000	35,000	8,976,000	11,000	188,000
7	2026 -27	114,937,000	146,000	7,173,000	36,000	9,245,000	12,000	194,000
8	2027 -28	117,817,000	150,000	7,352,000	37,000	9,522,000	12,000	199,000
9	2028 -29	120,769,000	153,000	7,536,000	38,000	9,808,000	12,000	203,000
10	2029 -30	123,793,000	157,000	7,725,000	39,000	10,102,000	13,000	209,000
11	2030 -31	126,888,000	161,000	7,918,000	40,000	10,405,000	13,000	214,000
12	2031 -32	130,060,000	165,000	8,116,000	41,000	10,717,000	14,000	220,000
13	2032 -33	133,312,000	169,000	8,319,000	42,000	11,039,000	14,000	225,000
14	2033 -34	136,645,000	174,000	8,527,000	43,000	11,370,000	14,000	231,000
15	2034 -35	140,061,000	178,000	8,740,000	44,000	11,711,000	15,000	237,000
16	2035 -36	143,563,000	182,000	8,959,000	45,000	12,062,000	15,000	242,000
17	2036 -37	147,152,000	187,000	9,183,000	47,000	12,424,000	16,000	250,000
18	2037 -38	150,831,000	192,000	9,413,000	48,000	12,797,000	16,000	256,000
19	2038 -39	154,602,000	196,000	9,648,000	49,000	13,181,000	17,000	262,000
20	2039 -40	158,467,000	201,000	9,889,000	50,000	13,576,000	17,000	268,000
21	2040 -41	162,429,000	206,000	10,136,000	51,000	13,983,000	18,000	275,000
22	2041 -42	166,490,000	211,000	10,389,000	53,000	14,402,000	18,000	282,000
23	2042 -43	170,652,000	217,000	10,649,000	54,000	14,834,000	19,000	290,000
24	2043 -44	174,918,000	222,000	10,915,000	55,000	15,279,000	19,000	296,000
25	2044 -45	179,291,000	228,000	11,188,000	57,000	15,737,000	20,000	305,000
25 Year Term								
Nominal Total			$4,602,000		$1,063,000		$357,000	$6,022,000
Net Present Value @ 10%			$1,698,000		$340,000		$113,000	$2,151,000

1 Hotel and Parking revenues based on Developer projections, with long term inflation set at 2.5%.

2 See ATTACHMENT 2 - TABLE 4B. Includes all hotel operations including restaurant rental income but excluding parking income. Tax is assessed at a rate of $1.27 per $1,000 of receipts. Includes tax on construction spending. See note 2 below.

3 Based on hard costs of $327,239,000 and the following cost phasing: 0% in 2017; 50% in 2018; and 50% in 2019. Tax is calculated at a rate of $1.01 per $1,000 of contractor receipts.

4 Based on projected parking revenues provided by Developer. Tax is assessed at a rate of $5.07 per $1,000 of receipts.

5 Based on a 17,200 square feet of commercial and Year 1 annual taxable sales of $450 per square foot. Inflates at 3.0%. Tax is assessed at a rate of $1.27 per $1,000 of receipts.

Prepared by: Keyser Marston Associates, Inc.
Filename; Lightstone Hotel 8-3;GR_Proj; DP

ATTACHMENT 2 - TABLE 4B
GROSS RECEIPTS CALCULATION [1]
PICO & FIGUEROA HOTELS
LOS ANGELES, CALIFORNIA

I. AC Hotel - Gross Receipts

Year		Room Rev.	F&B/On-Site Retail	Other Revenues [2]	Total
2020	21	$27,476,000	$3,663,000	$944,000	$32,083,000
2021	22	$30,786,000	$4,105,000	$1,058,000	$35,949,000
2022	23	$33,501,000	$4,467,000	$1,152,000	$39,120,000
2023	24	$34,434,000	$4,591,000	$1,184,000	$40,209,000
2024	25	$35,485,000	$4,731,000	$1,220,000	$41,436,000
2025	26	$36,372,000	$4,849,000	$1,250,000	$42,471,000
2026	27	$37,281,000	$4,971,000	$1,281,000	$43,533,000
2027	28	$38,213,000	$5,095,000	$1,314,000	$44,622,000
2028	29	$39,169,000	$5,222,000	$1,346,000	$45,737,000
2029	30	$40,148,000	$5,353,000	$1,380,000	$46,881,000

II. Moxy Hotel - Gross Receipts

Year		Room Rev.	F&B/On-Site Retail	Other Revenues [2]	Total
2020	21	$26,503,000	$2,356,000	$972,000	$29,831,000
2021	22	$29,294,000	$2,604,000	$1,074,000	$32,972,000
2022	23	$31,400,000	$2,792,000	$1,151,000	$35,343,000
2023	24	$32,333,000	$2,875,000	$1,185,000	$36,393,000
2024	25	$33,267,000	$2,958,000	$1,220,000	$37,445,000
2025	26	$34,099,000	$3,032,000	$1,250,000	$38,381,000
2026	27	$34,951,000	$3,107,000	$1,281,000	$39,339,000
2027	28	$35,825,000	$3,185,000	$1,313,000	$40,323,000
2028	29	$36,721,000	$3,265,000	$1,346,000	$41,332,000
2029	30	$37,639,000	$3,346,000	$1,380,000	$42,365,000

III. Hilton Garden Inn - Gross Receipts

Year		Room Rev.	F&B/On-Site Retail	Other Revenues [2]	Total
2020	21	$20,313,000	$1,729,000	$713,000	$22,755,000
2021	22	$22,775,000	$1,938,000	$799,000	$25,512,000
2022	23	$24,800,000	$2,111,000	$870,000	$27,781,000
2023	24	$25,506,000	$2,171,000	$895,000	$28,572,000
2024	25	$26,301,000	$2,238,000	$923,000	$29,462,000
2025	26	$26,958,000	$2,294,000	$946,000	$30,198,000
2026	27	$27,632,000	$2,352,000	$970,000	$30,954,000
2027	28	$28,323,000	$2,410,000	$994,000	$31,727,000
2028	29	$29,031,000	$2,471,000	$1,019,000	$32,521,000
2029	30	$29,757,000	$2,532,000	$1,044,000	$33,333,000

IV. Total Project - Gross Receipts

Year		Hotel Revenue	Retail Rent [3]	Total
2020	21	$84,669,000	$929,000	$85,598,000
2021	22	$94,433,000	$957,000	$95,390,000
2022	23	$102,244,000	$987,000	$103,231,000
2023	24	$105,174,000	$1,017,000	$106,191,000
2024	25	$108,343,000	$1,047,000	$109,390,000
2025	26	$111,050,000	$1,079,000	$112,129,000
2026	27	$113,826,000	$1,111,000	$114,937,000
2027	28	$116,672,000	$1,145,000	$117,817,000
2028	29	$119,590,000	$1,179,000	$120,769,000
2029	30	$122,579,000	$1,214,000	$123,793,000

[1] Based on Developer projections. Excludes parking revenues.

[2] Includes telephone, miscellaneous rentals, and other income.

[3] Based on a 17,200 SF of retail and a Year 1 monthly triple net (NNN) rental rate of $4.50 per square foot. Inflates at 3.0% annually.

Prepared by: Keyser Marston Associates, Inc.
Filename; Lightstone Hotel 8-3;GR_Detail; DP

ATTACHMENT 2 - TABLE 5A

UTILITY USER TAX PROJECTION
PICO & FIGUEROA HOTELS
LOS ANGELES, CALIFORNIA

Year			Gross Utility Tax Revenue [1]	Utility Utilization Rate [2]	Net Utility Tax Revenue
1	2020	21	$298,000	80%	$238,000
2	2021	22	307,000	90%	276,000
3	2022	23	316,000	95%	300,000
4	2023	24	325,000	100%	325,000
5	2024	25	335,000	100%	335,000
6	2025	26	345,000	100%	345,000
7	2026	27	355,000	100%	355,000
8	2027	28	366,000	100%	366,000
9	2028	29	377,000	100%	377,000
10	2029	30	388,000	100%	388,000
11	2030	31	400,000	100%	400,000
12	2031	32	412,000	100%	412,000
13	2032	33	424,000	100%	424,000
14	2033	34	437,000	100%	437,000
15	2034	35	450,000	100%	450,000
16	2035	36	464,000	100%	464,000
17	2036	37	478,000	100%	478,000
18	2037	38	492,000	100%	492,000
19	2038	39	507,000	100%	507,000
20	2039	40	522,000	100%	522,000
21	2040	41	538,000	100%	538,000
22	2041	42	554,000	100%	554,000
23	2042	43	571,000	100%	571,000
24	2043	44	588,000	100%	588,000
25	2044	45	606,000	100%	606,000
25 Year Term					
Nominal Total					$10,748,000
Net Present Value @ 10%					$3,339,000

[1] See calculation on ATTACHMENT 2 - TABLE 5B. Utility costs are assumed to inflate at 3.0% annually.
[2] Based on projected hotel occupancy.

Prepared by: Keyser Marston Associates, Inc.
Filename; Lightstone Hotel 8-3;UUT_Proj; DP

ATTACHMENT 2 - TABLE 5B

UTILITY USER TAX CALCULATION
PICO & FIGUEROA HOTELS
LOS ANGELES, CALIFORNIA

Utility Type	Keys	Cost Per Key	Annual Utility Cost	Tax Rate [1]	Tax Revenues
Electricity	1,130	$1,545 [2]	$1,746,000	12.5%	$218,000
Natural Gas	1,130	$370 [2]	418,000	10.0%	42,000
Telephone	1,130	$370 [2]	418,000	9.0%	38,000
Total			$2,582,000	11.5%	$298,000

[1] Per Los Angeles Municipal Code.
[2] Based on similar Downtown LA properties.

Prepared by: Keyser Marston Associates, Inc.
Filename; Lightstone Hotel 8-3;UUT_Detail; DP

ATTACHMENT 2 - TABLE 6

PARKING TAX
PICO & FIGUEROA HOTELS
LOS ANGELES, CALIFORNIA

Year			Annual Parking Income [1]	Parking Tax Revenues [2]
1	2020	21	$5,339,000	$534,000
2	2021	22	5,953,000	595,000
3	2022	23	6,442,000	644,000
4	2023	24	6,628,000	663,000
5	2024	25	6,826,000	683,000
6	2025	26	6,997,000	700,000
7	2026	27	7,173,000	717,000
8	2027	28	7,352,000	735,000
9	2028	29	7,536,000	754,000
10	2029	30	7,725,000	773,000
11	2030	31	7,918,000	792,000
12	2031	32	8,116,000	812,000
13	2032	33	8,319,000	832,000
14	2033	34	8,527,000	853,000
15	2034	35	8,740,000	874,000
16	2035	36	8,959,000	896,000
17	2036	37	9,183,000	918,000
18	2037	38	9,413,000	941,000
19	2038	39	9,648,000	965,000
20	2039	40	9,889,000	989,000
21	2040	41	10,136,000	1,014,000
22	2041	42	10,389,000	1,039,000
23	2042	43	10,649,000	1,065,000
24	2043	44	10,915,000	1,092,000
25	2044	45	11,188,000	1,119,000
25 Year Term				
Nominal Total				$20,999,000
Net Present Value @ 10%				$6,721,000

[1] Based on Developer projections. Assumes long term revenue inflation of 2.5%.
[2] Based on a 10% tax rate.

Prepared by: Keyser Marston Associates, Inc.
Filename; Lightstone Hotel 8-3;Parking; DP

ATTACHMENT C
Memorandum of Understanding
Between the City of Los Angeles
and Lightstone DTLA, LLC

Memorandum of Understanding between the City of Los Angeles and Lightstone DTLA LLC

The City of Los Angeles (the "City") and Lightstone DTLA LLC ("Developer" and, collectively with the City, the "Parties") enter into this Memorandum of Understanding ("MOU") as of December ___, 2017 for reference purposes, to provide specific guidelines, and mutual understanding of material issues, for the negotiation of one or more agreements for the potential development of a hotel complex with up to approximately 1,162 guestrooms (the "Project") on a 1.22-acre site located at 1240-1260 S. Figueroa Street and 601 W. Pico Boulevard (the "Project Site"). All terms and issues set forth in this MOU are subject to further discussion, but represent fundamental elements that the Parties understand are necessary to proceed with the Project.

BACKGROUND

Developer has proposed the development of the Project on the Project Site, which is bounded in part by S. Figueroa Street, W. Pico Boulevard and S. Flower Street, and is located adjacent to the Los Angeles Sports and Entertainment District (the "District") and the Metro Blue Line rail station. The Project Site is within walking distance of the Los Angeles Convention Center (the "LACC").

The Project includes two towers (Individually a "Tower" and, collectively, the "Towers"). The first Tower would be located at the corner S. Figueroa Street and S. Pico Boulevard, and would include two hotels with up to approximately 820 guestrooms, together with related retail/restaurant and guest amenity spaces. The second Tower would be located at the corner of S. Flower Street and S. Pico Boulevard, and would include a third hotel with up to approximately 342 guestrooms, together with related retail/restaurant and guest amenity spaces.

The Project Site includes several private and public parcels. Developer is in escrow to purchase the privately owned portion of the Project Site, which is currently developed with a two-story commercial building and surface parking lots. The balance of the Project Site, which includes a parking lot and sidewalk (the "City Parcel"), is currently owned by the City. The location of the City Parcel is shown on Exhibit 1 attached hereto and the legal description of the City Parcel is set forth in Exhibit 2 attached hereto.

For many years, the City has sought the development of the City Parcel for hotel use. The City has determined that at least 8,000 hotel rooms are needed within walking distance of the LACC to attract conventions that serve national and international visitors. Consistent with that vision, the City made several efforts to attract a developer that could realistically implement a dynamic hotel project on the Project Site. To date, the Developer has presented the most feasible and desirable development plan that effectively utilizes the City Parcel and private parcels to accomplish the City's vision. Developer has expended substantial resources to create a development plan and seek the required entitlements.

The Project is desirable to the City as part of its ongoing effort to expand the LACC, and the City has determined that new hotel rooms serving a variety of visitor needs are necessary to more fully utilize an expanded LACC, as well as to support further economic development within the City, provide additional visitor-serving uses that are beneficial to support the City's hosting of the 2028 Olympic and Paralympic Games, and the City's goal of attracting 50 million annual visitors. In addition, the City desires to create good paying jobs, thereby benefiting the downtown community and the City. Furthermore, the City is currently updating the Central City Community Plan and has identified the Project Site as an optimal site for the development of high-density hotel uses. The development of the Project would substantially contribute to the City's achievement of these goals.

The City's Chief Legislative Analyst has retained, at Developer's expense, an independent and experienced financial analyst (the "City Analyst") to evaluate the Project and advise the City with regard to the financial feasibility of the Project. The City Analyst has determined that the Project is not financially feasible without City financial assistance, for the public purpose of providing ongoing economic development benefits to the City. The City has further determined that the Project meets the criteria of providing a significant number of hotel rooms that support the LACC, but only with the inclusion of the City Parcel in the development plan. As such, consistent with City policy, the City has previously initiated the surplus sale process and determined that a sale price of $9.6 million for the City Parcel, which represents the fair market value of the City Parcel, is appropriate.

CITY INVESTMENT

The sources of potential City support for the financing and implementation of the Project (the "City Assistance") are outlined below. The City finds these terms to be acceptable in concept for negotiation and clarification of the terms of any agreements necessary and appropriate to support the implementation of the development of the Project.

In the event the Parties reach a tentative agreement on the terms and conditions of the City's financial commitment in the Project, the terms will be set forth in one or more definitive written agreements. Such agreements may take the form of a hotel development incentive agreement, a development agreement, a purchase and sale agreement or any other agreement deemed by the Parties to be appropriate (collectively, the "City Agreements").

The terms to be further discussed and negotiated are as follows:

1. Special Fund and Reimbursement. The portion of the proposed City Assistance to address the funding gap with respect to the Project (the "Hotel Incentive") will require the City to establish a special fund (the "Special Fund") and deposit funds from the City's general fund (the "General Fund") into the Special Fund on not less than an annual basis. The Hotel Incentive will consist of payments from the General Fund equivalent to transient occupancy tax ("TOT") revenues received by the City from the development of the Project, as more specifically discussed

below. Payments will be made from the Special Fund to Developer in arrears on a semi-annual basis, with each payment in an amount equal to the TOT revenues received by the City with respect to the Project for the applicable six (6)-month period.

2. Conditional Obligations. Payments from the Special Fund to Developer will be conditioned upon the continued compliance by Developer and Developer's tenants, including the operators of the three hotels (each, a "Hotel" and, collectively, the "Hotels"), with the City Agreements.

3. Construction Costs and Project Financing Audit. Upon substantial completion of each Tower, Developer shall submit a certification from the architect for such Tower, stating that the improvements with respect to such Tower have been constructed in substantial accordance with the approved plans and specifications for such Tower (the "Plans and Specifications"). With respect to each Tower, upon (a) submission of the foregoing architect's certification, (b) a determination of final Project development and construction costs with respect to such Tower, (c) a determination by the City that Developer has substantially completed the such Hotel in substantial conformance with industry standards for a select-service, three-star hotel and the Plans and Specifications, (d) a determination by the City that Developer has satisfied all of Developer's development obligations under the City Agreements with respect to such Tower, and (e) completion of an independent audit of the development and construction costs with respect to such Tower, Developer and the City will conduct another review of the Project development and construction costs and project financing and other factors, at Developer's expense and under an independent contract administered by the City, with factors as agreed to by the Parties to reevaluate and set or re-set the maximum amount of the Hotel Incentive as set forth in Paragraph 5, below.

4. ADA Compliance/CASp. Developer shall construct and maintain the Project in accordance with all applicable federal, state and local accessibility requirements. Developer shall utilize the services of a Certified Accessibility Specialist ("CASp") during the design and construction of the Project and shall provide written report(s) signed by the Project architect and the CASp the to the City verifying that the Project has been designed and constructed in accordance with all applicable accessibility requirements. Such report may be incorporated into the architect certification described in Paragraph 3, above.

5. Maximum Assistance. The maximum amount of the Hotel Incentive shall not exceed an amount equal to the lesser of (a) the funding gap for the Project, which the independent City Analyst has determined, based on its financial analysis, is the amount of Sixty-Seven Million Four Hundred Thousand Dollars ($67,400,000) (the "Funding Gap"), or (b) 50% of the net new tax revenues projected to be generated by the Project and received by the City, determined as net present value, discounted at the rate of ten percent (10%) over a 25-year period commencing with the first year of hotel operations ("Net New Tax Revenues"), which the City Analyst has determined, based on its financial

analysis, will be the amount of Seventy-Nine Million Ten Thousand Dollars ($79,010,000). Therefore, the maximum amount of the Hotel Incentive will be Sixty-Seven Million Four Hundred Thousand Dollars ($67,400,000). Such maximum amount of the Hotel Incentive is subject to reduction on a dollar-for-dollar basis to the event that the construction cost audit following substantial completion of the Project establishes that the actual financing gap for the Project was less than such maximum amount of the TOT Financial Assistance.

6. Tax Calculations. TOT shall be calculated based solely from the TOT remitted by the operators of the three Hotels. As used herein, Net New Tax Revenues shall include City business and utility taxes, the City's share of construction-related tax revenues, property taxes, property taxes in lieu of vehicle license fee taxes, sales taxes, utility user taxes, business gross receipt taxes, parking revenues taxes, TOT and any other revenues reasonably expected to be received by the General Fund with respect to the Project, all of which must actually be received by the City.

7. Tax Confidentiality Waivers. Developer shall cause the Hotel Operators and all business tenants that occupy space in the Project to execute limited confidentiality waivers authorizing the City to examine the tax records of those businesses in order to determine the amount of TOT relating to the Project and to comply with Government Code Section 53083 in accordance with Paragraph 15, below.

8. Transfer of Project and Property. Subject to limited exceptions to be agreed upon by Developer and the City, Developer shall not sell, assign, convey or transfer the Project or any interest in the Project Site without the prior written consent of the City, which consent shall not be unreasonably withheld, conditioned or delayed, for the duration of the primary City Agreement relating to the Hotel Incentive (the "Term").

9. Hotel Rating. Each Hotel will achieve and maintain at least a select-service, three-star rating, as defined by the AAA Tour Book for Southern California, or at an equivalent level by an alternative nationally recognized hotel rating service for the duration of the Term.

10. Hotel Operator. The initial hotel operator for each Hotel, as well as any proposed change to any hotel operator during the Term, shall require the prior written approval of the City, which approval shall not be unreasonably withheld, conditioned or delayed. The Parties will agree to a pre-approved list of acceptable hotel operators and standards, which shall be attached to the applicable City Agreement.

11. Hotel Operation. Each Hotel shall be operated in accordance with the hotel operating covenants and all other restrictions set forth in the applicable City Agreements for the entire Term.

12. Construction Sales Tax. Developer will cause the City to be designated as the "point of sale" for all construction-related purchases, including purchases made by any subcontractors of the developers of the Project.

13. Community Benefits Package. Developer shall comply with a community benefits package, as negotiated between the Parties. The package shall include living wage compliance, local hiring compliance, a room block agreement relating to the LACC and the 2028 Olympic and Paralympic Games, and other elements agreed upon by the Parties, which may include job training and job creation. All or a portion of the items in the community benefits package may be the public benefits included in a development agreement for the Project.

14. Cooperation. The City will cooperate in timely processing any and all requests for required entitlements, approvals and agreements for the Project.

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

16. City Parcel. The Developer shall purchase the City Parcel from the City for the sum of $9.6 million, which is the fair market value of the City Parcel. The City will retain an option to repurchase the City Parcel if the Developer fails to construct the Project, provided that such option shall terminate upon the issuance of the first building permit (which includes a demolition, grading, shoring or foundation permit) for the Project and the satisfaction of the conditions relating thereto.

17. Living Wage. Developer shall ensure that the hotel operator for each Hotel complies with Article 6 of Chapter XVIII of the Los Angeles Municipal Code (the "LAMC") regarding the minimum wage payable to "Hotel Workers." The minimum wage and other compensation payable to Hotel Workers shall be determined pursuant to Section 186.02 of the LAMC, subject to adjustment pursuant to Section 10.37.2(a) of the LAAC.

MOU IMPLEMENTATION

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

This MOU authorizes the Parties to negotiate and draft the City Agreements consistent with the terms of this MOU. Developer acknowledges and agrees that the final City Agreements, as well as any ordinances or other legislative acts necessary to effectuate the terms of any proposed City Agreements, must be approved by the City Council and, if applicable, the Mayor, as set forth in the Los Angeles City Charter and/or LAAC or as otherwise required by law. Developer acknowledges that compliance with the applicable requirements of the California Environmental Quality Act by the City will be required prior to the approval of the City Agreements by the City Council and Mayor.

IN WITNESS WHEREOF, the Parties have executed this MOU on the dates indicated.

DEVELOPER:

LIGHTSTONE DTLA LLC,
a Delaware limited liability company

By:____________________________

Name:_________________________

Title:__________________________

Date:__________________________

CITY:

CITY OF LOS ANGELES,
a municipal corporation

By:____________________________

Name:_________________________

Title:__________________________

Date:__________________________

APPROVED AS TO FORM:

Michael N. Feuer, City Attorney

By____________________________
Deputy City Attorney

Date:__________________________

ATTESTED:

Holly Wolcott, City Clerk

By____________________________
Deputy City Clerk

Date:__________________________

EXHIBIT 1

<u>DEPICTION OF CITY PARCEL</u>

(See attached one page)

EXHIBIT 2

LEGAL DESCRIPTION OF CITY PARCEL

All that certain real property located in the City of Los Angeles, County of Los Angeles, State of California, more particularly described as follows:

PARCEL 1:

THOSE PORTIONS OF LOTS 11, 12 AND 13 OF CARSON AND CURRIER'S SUBDIVISION OF BLOCK 89 OF ORD'S SURVEY, IN THE CITY OF LOS ANGELES, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 55, PAGE 3, MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, BOUNDED AND DESCRIBED AS FOLLOWS:

BEGINNING AT THE MOST SOUTHERLY CORNER OF SAID LOT 13; THENCE NORTH 37 DEGREES 46 MINUTES 20 SECONDS EAST ALONG THE SOUTHEASTERLY LINE OF SAID LOTS A DISTANCE OF 123.23 FEET TO THE SOUTHEASTERLY PROLONGATION OF THE SOUTHERLY FACE OF THE SOUTH WALL OF A TWO-STORY BUILDING ON PROPERTY ADJOINING ON THE NORTH; THENCE NORTH 52 DEGREES 13 MINUTES 10 SECONDS WEST ALONG SAID SOUTHEASTERLY PROLONGATION AND ALONG SAID SOUTHERLY FACE AND ITS NORTHWESTERLY PROLONGATION TO THE NORTHWESTERLY LINE OF SAID LOT 11; THENCE SOUTH 37 DEGREES 45 MINUTES 10 SECONDS WEST ALONG THE NORTHWESTERLY LINES OF SAID LOTS A DISTANCE OF 148.30 FEET TO THE MOST WESTERLY CORNER OF SAID LOT 13; THENCE SOUTHEASTERLY ALONG THE SOUTHWESTERLY LINE OF SAID LOT 13 TO THE POINT OF BEGINNING.

EXCEPTING THEREFROM, THAT PORTION OF SAID LOT 13 CONDEMNED FOR PUBLIC STREET PURPOSES, AND DESCRIBED AS PARCEL NO. 126AA (PUBLIC STREET IN FEE SIMPLE) IN THAT CERTAIN JUDGMENT AND FINAL ORDER OF CONDEMNATION, A CERTIFIED COPY OF WHICH WAS RECORDED MAY 29, 1969 AS INSTRUMENT NO. 3936.

ALSO EXCEPTING AND RESERVING THEREFROM ALL CRUDE OIL, PETROLEUM, GAS, ASPHALTUM AND ALL KINDRED SUBSTANCES AND OTHER MINERALS OF WHATEVER NATURE IN, UNDER AND RECOVERABLE FROM SAID LAND, WITHOUT THE RIGHT TO ENTER, DRILL OR PENETRATE IN OR UPON THE SURFACE OF SAID LAND OR WITHIN 500 FEET THEREOF, AS SET FORTH IN THAT CERTAIN JUDGMENT AND FINAL ORDER OF CONDEMNATION, A CERTIFIED COPY OF WHICH WAS RECORDED MAY 29, 1969 AS INSTRUMENT NO. 3936.

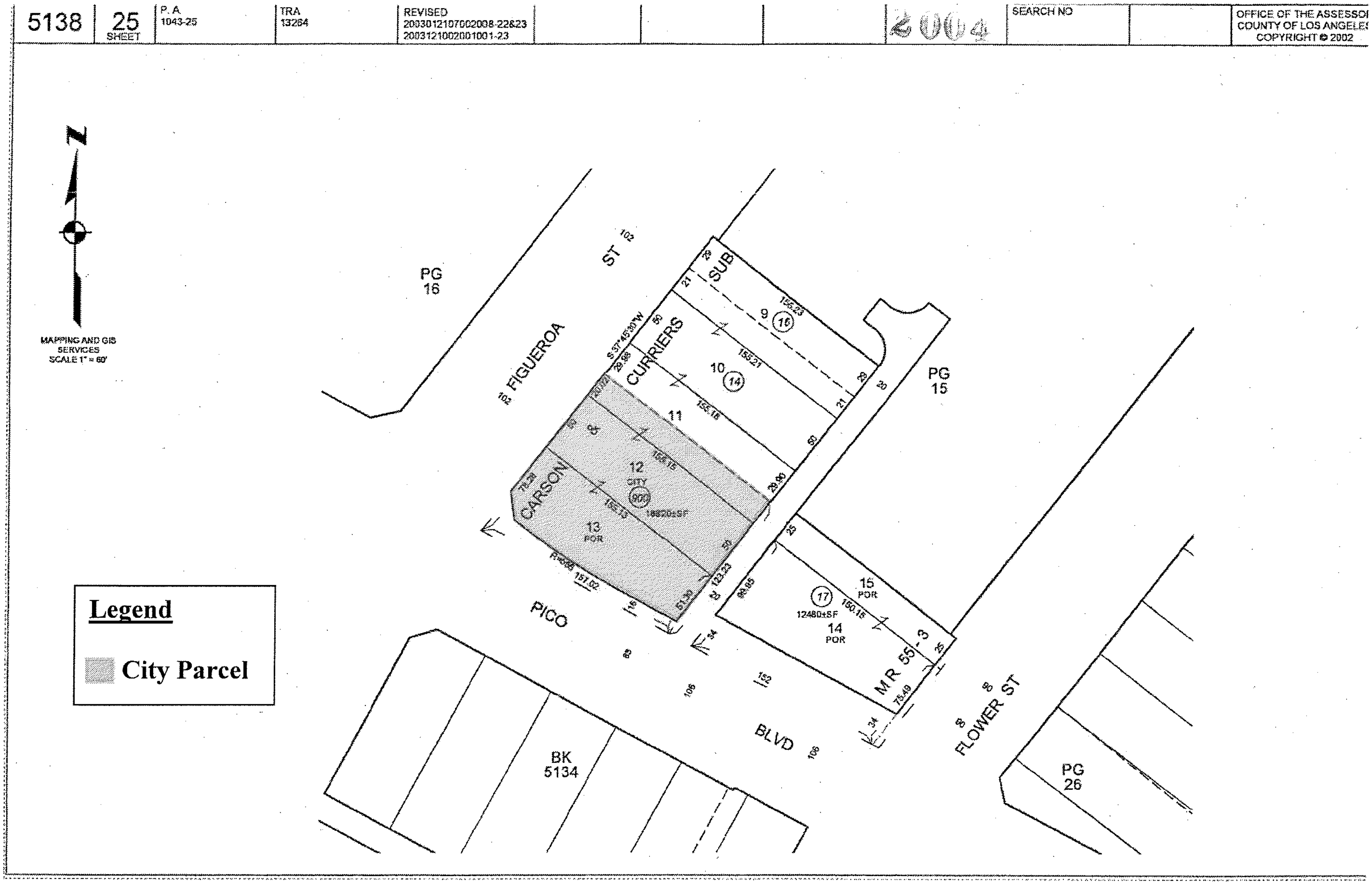
PARCEL 2:

THE NORTHEASTERLY 20 FEET OF THE SOUTHWESTERLY 34 FEET OF LOT 14, CARSON AND CURRIER'S SUBDIVISION OF BLOCK 89, ORD'S SURVEY, AS PER MAP RECORDED IN BOOK 55, PAGE 3, OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF LOS ANGELES COUNTY.

EXCEPTING THEREFROM THOSE PORTIONS WITHIN PUBLIC STREETS.
ALSO EXCEPTING THEREFROM THAT PORTION OF SAID LOT 14 BOUNDED AND DESCRIBED AS FOLLOWS:

BEGINNING AT THE INTERSECTION OF THE NORTHWESTERLY LINE OF THE SOUTHEASTERLY 5 FEET OF SAID LOT WITH THE NORTHEASTERLY 20 FEET OF THE SOUTHWESTERLY 34 FEET OF SAID LOT; THENCE NORTH 61°23'30" WEST ALONG SAID NORTHEASTERLY LINE A DISTANCE OF 20.26 FEET TO THE BEGINNING OF A NON-TANGENT CURVE CONCAVE TO THE SOUTH AND HAVING A RADIUS OF 35 FEET, A RADIAL LINE TO SAID BEGINNING OF CURVE BEARS NORTH 16°03'26" WEST; THENCE EASTERLY ALONG SAID CURVE THROUGH A CENTRAL ANGLE OF 40°12'24" AN ARC DISTANCE OF 24.56 FEET TO A POINT IN SAID NORTHWESTERLY LINE DISTANT 10.13 FEET NORTHEASTERLY MEASURED ALONG SAID NORTHWESTERLY LINE FROM THE POINT OF BEGINNING; THENCE SOUTHWESTERLY ALONG SAID NORTHWESTERLY LINE TO THE POINT OF BEGINNING.

EXHIBIT 1



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CARSON
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PICO BLVD
FLOWER ST
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PG 26
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City Parcel