Attachment No. PC 7

Feasibility and Impact Assessment, prepared by PFK Hospitality Group

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Newport Beach Municipal Code Section 21.48.025 Feasibility and Impact Analysis for 6302 W. Coast Highway Hotel Development in Newport Beach, California



July 2023

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executive summary

• In this report, we present our findings of the two requested analyses, as follows:

The feasibility of the hotel development at 6302 W. Coast Highway ("Project") to include lower-cost visitor accommodations; and

The impact of the Project on the existing lower-cost visitor accommodations in the City of Newport Beach ("City").

- The following analyses conclude that it is not feasible to provide lower-cost visitor accommodations as part of the Project, and the Project would not impact the availability of lower- cost visitor accommodations in the City.
- The Project is currently contemplated to be a three to four-star 12-key boutique hotel in Newport Beach, California within a small community on the Pacific Coast Highway and a minute walk from the beach.
- Newport Beach is located in Southern California and is known for its tourism and hospitality, which attracts million of visitors each year, as well as for it finance, investment, retail and healthcare industry sectors. Its proximity to the beach makes it a wonderful place to visit if you are an avid beachgoer and enjoy outdoor activities.
- The Project site is located near the Balboa Peninsula, driving distance to the downtown ares of Newport Beach, Huntington Beach and Costa Mesa. There is good visibility from the streets, and it is easily accessible by car and bike. The direct surroundings are characterized by the beach across the Pacific Coast Highway, and smaller buildings occupied by older cafes and residential projects, such as Sonder next door.
- The subject property suffered damage from a fire and ceased operating as a hotel. The Project would establish a new hotel at the property. The area has a number of buildings in disrepair, and the renovation of this property will add notable improvements to the PCH and the general area building supply.
- The property has 12 rooms and is approved for 12 rooms, albeit in an upgraded configuration from the existing footprint and layout. The owner plans to create 8 standard rooms and 4 suites, all with semi-private outdoor seating areas and access to a central courtyard with firepit and many beach-friendly amenities, such as lockers with beach chairs and umbrellas, and high-end dedicated beach bikes.
- In the period from 2018 to 2023, the number of hotel rooms in Newport Beach increased due to the growing demand as a popular tourist destination, and there has been growing demand for accommodations in the area.
- Currently, a large number of branded hotels are present in the market. Given the fact that there is a limited number of hotel projects specifically in the boutique hotel space currently being planned and developed in the Newport Beach market (in particular in the midscale and upscale segments); only a slight growth of supply can be expected in the upcoming years



- As a result of our site and market analyses, we consider the project site to be well suited for a hotel of the upscale boutique market targeting leisure travelers. The project can garner an ADR upwards of \$300.
- The property will be designed by a renowned local designer who specializes in beachy designs, and who designed Kelly Slater's surf wave property.



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Introduction

Feasibility Analysis

Newport Beach Municipal Code ("NBMC") Section 21.48.025(C)(2) requires "an analysis of the feasibility of providing lower-cost visitor accommodations...for any application involving the...redevelopment...of...visitor accommodations." This analysis is required regardless of whether the accommodations to be converted are "lower-cost." The Project proposes to redevelop a vacant and abandoned property with 12 high-cost visitor accommodations. Thus, the NBMC requires the preparation of this feasibility analysis to determine if the Project could provide lower-cost visitor accommodations on the Project site.

As explained below, it is not feasible to include lower-cost visitor accommodations on the Project site. This infeasibility is due to the site's high land value, the Project's high development costs, and the small site size.

Project

The Project proposes to reonovate and redevelop a vacant and abandoned boutique hotel/motel in Newport Beach, California. The Project site is to be located walking distance from the beach and detailed architectural plans have been produced and are under review with the city.

The following uses are planned for the project:

- lodging facilities with 12 keys
- café and coffee bar
- courtyard for small events with bocce ball and fire pit
- other facilities (amongst others parking, staff area, guest storage and BOH and
- We conducted the assignment from February 2023 to March 2023. The study is based on the site and market conditions at the time of the site and market research as well as the relevant supply and demand at that time.

The audit of the legal terms, in particular the ownership, building, corporate and fiscal terms, is not subject of this assignment. We have prepared the feasibility study on the basis of the *General Terms and Conditions of Doing Business*. When preparing the study, we have acted in our position as a neutral expert to the best of our knowledge. However, we cannot guarantee the actual occurrence of any forecasted results.

The study was exclusively prepared for the client's use. If it is forwarded to any third party, the above-mentioned *General Terms and Conditions of Doing Business* shall also apply vis-à-vis this third party. The report (or parts of it) may only be published after the consultant's prior written approval.



New York, 19 July 2023

PKF hotelexperts LLC

Channing Henry, Managing Director



Methodology

General

The quality and significance of studies relies to a great extent on detailed research. In order to provide an insight into the applied methodology, we have listed selected aspects of our work:

The following people have worked on the assignment:

- project controller: Channing Henry (Managing Director), Bruce Baltin (Director)
- project manager: Ryan Swanson (Consultant)

In case of questions regarding the content and structure of this feasibility report, the project controller and the project manager are at your disposal. You can reach them under:

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telephone +1 917-270-3140 e-mail channing.henry@pkfhospitality.com internet www.pkfhospitality.com

The individual steps of the assignment were done in the following order:

- date when assignment was given: February 2023
- preparation of site and market analysis: February 2023 March 2023
- collection/analysis of data and writing of the report: February 2023
- delivery of draft report: March 2023
- delivery of final report: July 2023

Analyses

In the course of the collection of information, the project team interviewed – either personally or by telephone – several experts. A list of those people as well as of collected documents and other information can be obtained from PKF hotelexperts.

The information was collected by using – amongst others – the following means:

- visit to Newport Beach, California
- market research in Newport Beach, California



- personal interviews and interviews by telephone with representatives from the City of Newport Beach, California
- analyses of data and statistics provided by various statistical offices
- analysis of various publications
- internet research
- use of various databases (including databases by PKF hotelexperts)

The collected information and data was analysed in the following way:

- analysis and evaluation of the collected market data and results of the interviews
- derivation and assessment of the development of the relevant hotel market
- assessment of the hotel site for various guest segments based on the current and probable future site and market situation
- remarks on the optimal positioning of the hotel
- derivation of the estimated achievable occupancy based on data of relevant competitors respectively hotels of regional importance taking into consideration the most probable market development in particular with regards to the development of the estimated market shares
- derivation of the estimated achievable average net room rate per hotel based on data of relevant competitors – respectively hotels of regional importance – and taking into consideration figures based on our international experience

Ratios

The following ratios are used throughout the reports:

- occupancy
 occupied rooms divided by the number of available rooms per period
- ② multiple occupancy factor number of guests divided by the number of occupied rooms per period
- 3 published room rate (= rack rate) published room rate including VAT and – if applicable – breakfast
- net room rate
 rooms revenue (after deduction of breakfast, VAT and allowances/discounts) divided by the number of occupied rooms in each period



⑤=①x④ revenue per available room/revpar (= rooms yield)

occupancy multiplied by the average net room rate respectively rooms revenue (excluding VAT, breakfast and allowances/discounts) divided by the number of available rooms per period

Impact Analysis

NBMC Section 21.48.025(C)(3)(a) provides that "an analysis of a development's impact on the availability of lower-cost visitor accommodations in the City shall be required for any application involving...the...redevelopment...of...visitor accommodations...." The Project proposes to reonovate and redevelop a vacant and abandoned boutique hotel/motel in Newport Beach, California. Thus, the NBMC requires the preparation of this impact analysis, at the Client's expense, to determine if the Project impacts the availability of lower-cost visitor accommodations in the City.

As explained below, this Project does not impact the City's existing lower-cost visitor accommodations. The number of lower-cost visitor accommodations in the City will remain the same, and both the supply and demand for them will be unchanged by this Project.

Classification

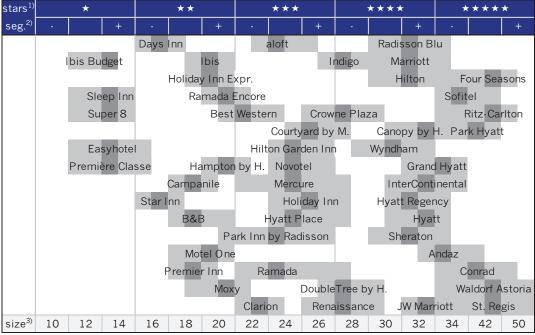
The classification of hotels in this study is based on the internal hotel classification of *PKF hotelexperts*, which is orientated towards the strict international parameters for the classification of hotels (maximum of five stars):

- **** outstanding standard; extraordinarily good service, extraordinarily large (minimum of 34 sq m) and luxuriously equipped rooms; excellent food & beverage facilities; extensive and outstanding sports, leisure and spa facilities (for resort hotels) or high-quality fitness & spa facilities (for city hotels)
- very high standard; very good service; large (minimum of 28 sq m) and very comfortably equipped rooms; very good food & beverage facilities; sports, leisure and spa facilities, which are adequate to the type and the site of the hotel
- high standard; good service; spacious (minimum of 22 sq m) and comfortably equipped rooms; good food & beverage facilities; sports, leisure and spa facilities, which are adequate to the type and the site of the hotel
- simple standard; limited service; relatively small (minimum of 16 sq m) and basic rooms; no or only simple food & beverage facilities; no or only simple sports, leisure and spa facilities
- very simple standard; no or very limited service; very small and very simply equipped rooms; no food & beverage facilities; no sports, leisure and spa facilities



Typical brands of the various market segments and their respective positioning as seen by PKF hotelexperts are illustrated in the following chart:

Chart 1 typical brands per segment



notes

- 1) stars according to classification by PKF
- ©PKF hotelexperts; status: 1 January 2017
- 2) per segment (dark grey:core positioning; light grey: range of existing properties)
- 3) size of standard room in sq m

Please note that national or regional classification systems – as well as the hotel groups themselves – often are more generous in attributing stars to hotels.



Location

County

General

Orange County is in Southern California, United States. It is situated along the coast of the Pacific Ocean and is part of the Los Angeles metropolitan area. Orange County covers an area of approximately 948 square miles (2,455 square kilometers). It is bordered by Los Angeles County to the north, San Bernardino County to the northeast, Riverside County to the east, and San Diego to the south. As of the 2020 United states Census, the population of Orange County was estimated to be around 3.2 million people, making it the sixth most populous county in California and the third most populous county in the Greater Los Angeles Area.

Land Value

Land in Newport Beach is extremely valuable, and land near the ocean in West Newport is known to have some of the most expensive real estate in the entire City. Land in West Newport can typically trade for tens of millions of dollars per acre. This high land value acquisition cost renders the property financially impractical and unsuitable for lower-cost visitor accommodations. Additionally, given the small size of the project, there is no physical area to construct lower-cost visitor accommodations at the Project site.

High Development Costs

The estimated construction costs for the Project are nearly \$1,000 per square foot. Inclusion of lowercost visitor accommodations would reduce the the overall leveraged internal rate of return ("IRR") to a level that would dissuade investors from investing in the Project, and would ultimately have the effect of preventing the Project from being developed.





Chart 2 location of Orange County in Southern California

Economy

The economy of Orange County, California is one of the largest and most diverse in the United States. The county is home to a wide range of industries, including technology healthcare, tourism, aerospace and defense, financial services, manufacturing and retail. In terms of GDP, Orange County is one of the top ten counties in the United States. The county's economy is estimated to have a gross metropolitan product of over \$300 billion in 2020, according to the Bureau of Economic Analysis. Orange County's technology industry is particularly strong, with companies such as Broadcom, Western Digital, and Blizzard Entertainment operating in the region. The healthcare industry is also a significant contributor to the economy, with major hospitals and medical centers in the county. These key industries contributed \$56.2 billion to the county's GMP (Gross Metropolitan Product) in 2020. The top employer includes the County of Orange, Disneyland Resort, UC Irvine and Boeing. As of December 2021, the unemployment rate in Orange County was 4.0%, compared to the national average of 3.9%. Median household income in Orange County was \$93,36 in 2019. The cost of living is much higher than the national average. The county's economy has been growing steadily over the past few years, with an increase of 2.2% in GMP between 2019 and 2020, obviously stunted by COVID-19, the economy is rebounding.

Location and expanse

Newport Beach is a coastal city in Orange County, Southern California, United States. It is situated on the Pacific Coast, about 10 miles (16 kilometers) south



of the city of Huntington Beach and 10 miles (16 kilometers) north of the city of Laguna Beach. Newport Beach is bordered by the Pacific Ocean to the west and by several other cities in Orange County to the north, east and south. According to the United States Census Bureau, the estimated population of Newport Beach, California, as of 2020, is approximately 85,236 people. Newport Beach is a relatively small city compared to other cities in Orange County, however it is known for its beautiful beaches, affluent neighborhoods, and a vibrant harbor area. The following map shows the location of Newport Beach within Orange County:



Chart 3 location of Newport Beach within Orange County

Economy and demographics

The economy of Newport Beach is distinguished by its location in Orange County, along with its proximity to other key institutions and areas. Newport Beach is within driving distance to University of California, Irvine, California State University, Fullerton and Orange Coast College, benefitting from an educated workforce. According to the US Census Bureau's American Community Survey 5-year estimates from 2015-2019, approximately 72.9% of the population aged 25 years and older in Newport Beach, California has a bachelor's degree or higher. This is significantly higher than the national average of 33.1%. Furthermore, 31.8% of Newport Beach residents aged 25 years and older have a graduate or professional degree. These statistics suggest that Newport Beach has a highly educated population. As per the US Census Bureau's American Community Survey 5-year estimates from 2015-2019, the total civilian labor force in Newport



Beach, California, was approximately 45,935 people. This includes individuals who are employed or actively seeking employment and are aged 16 years and older. The labor force participation rate for Newport Beach was estimated to be around 68.3%, which is higher than the national average of 62.7%.

Newport Beach, California is home to several companies across a variety of industries, including finance, healthcare, and technology. Some of the largest and most well-known companies in Newport Beach include Pacific Life Insurance Company: This is a large insurance and investment management company that has its headquarters in Newport Beach. PIMCO: This is a global investment management firm that was founded in Newport Beach in 1971. Hoag Memorial Hospital Presbyterian: This is a non-profit hospital system that is based in Newport Beach and serves the Orange County area. Clean Energy Fuels: This is a company that provides natural gas as an alternative fuel for vehicles and has its headquarters in Newport Beach. Acacia Research Corporation: This is a patent licensing and enforcement company that is based in Newport Beach, Lastly, Jazz Semiconductor: This is a company that designs and manufactures semiconductor products for a variety of applications and has its headquarters in Newport Beach. The top five industries in Newport Beach, California, by the number of people employed, were: professional, scientific, and technical services, health care and social assistance, retail trade, accommodation and food services, and finance and insurance.

The median household income in Newport Beach according to the US Census Bureaus' American Community Survey 5-year estimates from 2015-2019, the median household income in Newport Beach, California, was approximately \$126,728. This is significantly higher than the national median household income of \$65,712. It is worth noting that median household income can vary based on a variety of factors, including the size and composition of the household, the age and education level of the household members, and the local economy. Newport Beach is known to have a relatively high cost of living due to its affluent population and high-end amenities. Housing costs tend to be very high in Newport Beach, with many homes and properties being priced well above the national average. Other expenses such as dining out, entertainment, and shopping may also be relatively expensive in Newport Beach due to its reputation as a luxury destination. Approximately 69.2% of households in Newport Beach, California is occupied by their owners. This suggests that most residents in Newport Beach own the property they live in.

Culture and tourism

Newport Beach, California is known for its vibrant culture and thriving tourism industry. Newport Beach is home to some of Southern California's most beautiful beaches, including Balboa Peninsula, Newport Beach Pier, Corona del Mar State Beach, and Crystal Cove State Park. These beaches attract millions of tourists each year, making them a key part of Newport Beach's tourism industry. Newport Beach also has a thriving arts and culture scene, with several galleries, museums, and theaters in the area. Some of the most popular cultural attractions in Newport Beach include the Newport Theatre Arts Center, the Newport Harbor Art Museum, and the Newport Beach Film Festival. In addition to its beaches, Newport Beach offers plenty of opportunities for outdoor recreation, including hiking, biking, kayaking, and paddleboarding. The Back Bay Nature Preserve and Newport Bay Conservancy are popular spots for outdoor enthusiasts.



Furthermore, Newport Beach is known for its high-end shopping and dining options, with several luxury retail centers and fine dining establishments in the area. Known for its beautiful outdoor setting, which includes fountains, gardens, and a koi pond. Some of the most popular stores at Fashion Island include Neiman Marcus, Bloomingdale's, Nordstrom, and Chanel. South Coast Plaza is a large, upscale shopping center located in nearby Costa Mesa. It features over 250 stores, including many high-end designer boutiques, as well as a range of restaurants and entertainment options. South Coast Plaza is known for its extensive collection of art and sculptures, including works by artists such as Henry Moore and Joan Miró. Some of the most popular stores at South Coast Plaza include Gucci, Louis Vuitton, Chanel, and Prada.

Lastly, Newport Beach hosts a variety of events and festivals throughout the year, including the Newport Beach Film Festival, the Newport Beach Boat Show, and the Newport Beach Jazz Festival. These events draw visitors from all over the world and contribute to the city's vibrant culture and tourism industry.

Traffic

a) air traffic

Newport Beach Airport, also known as John Wayne Airport (SNA), is a commercial airport located in Orange County, California, serving the cities of Newport Beach, Costa Mesa, and Santa Ana. John Wayne Airport is served by several major airlines, including American Airlines, Delta Air Lines, United Airlines, and Southwest Airlines. The airport has two terminals, Terminal A and Terminal B, which are connected by a pedestrian bridge. Facilities at John Wayne Airport include several restaurants, shops, and lounges, as well as car rental services and parking options. The airport is located approximately 10 miles from Disneyland and the Anaheim Convention Center and is a popular gateway for visitors to Southern California. In 2019, the airport served over 10 million passengers. The airport offers both domestic and international flights and is a popular gateway for visitors to Southern California. According to data from the Federal Aviation Administration (FAA), John Wayne Airport (SNA) had a total of 117,031 aircraft operations (takeoffs and landings) in 2019. Of those, 107,704 were commercial operations and 9,327 were general aviation operations.

b) other transportation

The most common mode of transportation in Newport Beach is by car. Visitors can rent a car at the John Wayne Airport or from several rental agencies throughout the city. The city has many public parking options, including metered street parking and public parking lots. Orange County also has public transportation options, including the Transportation Authority (OCTA), which provides bus services throughout Newport Beach and the surrounding areas. Bus routes include local, express, and commuter services, and most routes run seven days a week. Bus fares vary depending on the route and distance traveled. The Newport Beach Free Trolley is a free shuttle service that operates from May through September. The trolley runs a fixed route and stops at several popular attractions, including Balboa Pier, the Fun Zone, and the Newport Beach Civic Center. The Metrolink commuter rail service provides transportation to Newport Beach from other parts



of Southern California, including Los Angeles and San Diego. The Newport Beach station is located on Industrial Way and serves the Orange County Line.

Project site

Location and expansion

The hotel site is located in Newport Beach, California, on the western portion of Balboa's beachfront. The Pacific Coast Highway runs right in front of the property, with easy access to the beach. The area attracts many surfers, bikers and beachgoers. The existing site area is a motel, which was sold by its original owners after a fire destroyed four of the rooms.

The site is 8,813 sq ft with 4,406 sq ft of allowable floor area per code. The proposed development includes an extension of the first floor, which will include four hotel rooms, a café, lobby and storage space. The existing remaing floor area is comprised of 2,702 sq ft. The owner intends to perform a full renovation of the existing rooms within the hotel and build the new two-story structure fronting PCH. In total, there will be 12 guest rooms, 4 of which will be larger suites. Each room will have access to complimentary beach bikes, umbrellas and beach chairs in order for those to enjoy the beach in comfort, and the freedom to bike to neighboring attractions such as the Newport Pier, areas along the Balboa Peninsula and downtown Newport Beach. Each room has a full wet bar and minifridge, and one large suite, room 9, has a full kitchen as it was the prior owners' home. This is the only kitchen on the property. All rooms have semi-private outdoor seating areas.

The café will be another addition to the bottom floor of the new two-story structure. The café will provide a wide range of coffee drinks, as well as a selection of pastries in the morning for guests to enjoy to start their day. The space within the café will also serve as a "lobby" for guests to check-in, however the hotel will mainly serve as a self-service property. The lobby/coffee bar will be 392 sq ft., which is part of the 664 sq ft that will comprise less than half of the new 1st floor development. The coffee bar will be open to the general public as well. On the east side of the property, 8 new parking lots will be made available to guests, free of charge. These spots will roughly be around 100 sq ft each.

Demand generators

Newport Beach, California has several key demand generators that contribute to its vibrant economy and tourism industry. Newport Beach is known for its beautiful beaches, which are a major draw for tourists and locals alike. The beaches offer a range of activities, including swimming, surfing, sunbathing, and beach volleyball. In addition to its beaches, Newport Beach has a thriving tourism industry, which is supported by a range of attractions, including museums, theaters, parks, and shopping centers. Popular tourist destinations in the area include Balboa Island, the Newport Beach Pier, and the Fashion Island shopping center.

Newport Beach is home to a range of businesses and industries, including finance, healthcare, and technology. The city's high-income population and



proximity to major business centers in Los Angeles and Orange County make it an attractive location for businesses. The city is also home to several prestigious universities and colleges, including the University of California, Irvine and Chapman University. These institutions contribute to the local economy by providing jobs and attracting students and faculty to the area.

Lastly, Newport Beach offers a wide range of recreational opportunities, including hiking, biking, kayaking, and paddleboarding. The city's parks and nature preserves, such as the Back Bay Nature Preserve and Crystal Cove State Park, are popular destinations for outdoor enthusiasts. These demand generators, along with the city's high quality of life, contribute to Newport Beach's strong economy and make it an attractive destination for both businesses and visitors.

Legal aspects

Legal aspects, especially the analysis of property rights, building laws, and fiscal laws, were not subject of this study.

Public utilities and services

According to information provided to us, the site is connected to all necessary supply and disposal lines, or has the potential to be.



Market

To draw conclusions regarding the positioning and financial viability of the client's proposed hotel, we carried out a comprehensive analysis of the local hotel market with a focus on the current and likely future competitors (existing capacities, amenities, etc). Within the scope of our market analysis, we looked at the existing relevant hotel supply in the Newport Beach area to assess overall market positioning and product offering. These hotels include smaller boutique hotels and large resorts ranging anywhere from 10 to 500 keys, with a positioning in the three to four-star segment (according to national standards). Furthermore, a location in the beach market, the range of facilities available and the quality level with regard to service, amenities and style were further criteria in identifying the hotels in the competitive set.

We provide descriptions, as well as a rack rate analysis, on the following pages.

Existing Supply of Lower-Cost Visitor Accommodations

NBMC Section 21.48.025(C)(1)(a) defines lower-cost visitor accommodations as the "average daily room rate for all economy hotels and motels in the City that have room rates that are below the Statewide average daily room rate or lower. Economy hotels and motels are AAA-rated one or two diamond hotels, or equivalent." Based upon our research, the City only has one lower-cost visitor accommodation facility, the 164-room Extended Stay America motel, located at 4881 Birch Street. This motel is located adjacent to John Wayne Airport and is sandwiched between the 405 and 73 freeways. The Project is not located anywhere near this lower-cost visitor accommodation facility, and the Project will have no impact on the lower-cost visitor accommodations provided at this facility.

Geographic Competitive Set

The following table provides an overview of the room supply of the geographic competitive set:

Chart 4 capacity of relevant hotels

hotel	brand	rooms	f&b	event spaces
name	name	#	#	sq. ft.
Balboa Bay Resort	Independent	159	4	30,000
Newport Beach Marriot Bayview	Marriott	254	1	3,000
Vea Newport Beach	Marriott	532	3	68,102
Hyatt Regency Newport Beach	Hyatt	407	2	26,000
Lido House Autograph	Marriott	130	3	15,137
Balboa Inn, On the Beach	Independent	45	2	3,000
Sonder Solarena	Sonder	32	0	0
Ramada by Wyndham	Wyndham	137	2	840
Doryman's Oceanfront Inn	Independent	11	2	0
Newport Beach Hotel	Independent	20	0	486
Average	Χ	173	2	14,657







Balboa Bay Resort: This 4-star resort is comprised of 159 keys with a mix of guest rooms and suites, all with private balconies overlooking the bay or gardens. The resort offers a range of amenities, including a full-service spa, a fitness center, a marina, and two waterfront restaurants. Additional amenities include a heated outdoor pool, as well as a variety of outdoor activities such as paddleboarding, kayaking and bike rentals. For events and meetings, the resort offers 20,000 sq ft of indoor and outdoor event space.





Newport Beach Marriot Bayview: This 4-star hotel is comprised of 254 keys with spacious guest rooms and suites, all with modern décor and comfortable furnishings. The hotel offers a range of amenities, including a fitness center, outdoor pool and whirlpool. For dining, the hotel has an on-site California inspired menu curated for breakfast, lunch and dinner. The hotel has 3,000 sq ft of flexible event space, including a ballroom.







VEA Newport Beach, A Marriot Resort & Spa: This 4-star resort is comprised of 397 guest rooms and suites, each with modern furnishings. The resort offers a wide range of amenities, including a full-service spa, fitness center, outdoor pool and multiple on-site restaurants and bars. The resort has 68,102 sq ft of event space, including a grand ballroom, outdoor venues, and smaller meeting rooms. It is situated steps from the beach, near Balboa/Fashion Island, and Newport Harbor.





Hyatt Regency Newport Beach: This 4-star hotel is comprised of 407 keys, with a mix of guest rooms and 55 suites offering modern décor and furnishings. The hotel offers various amenities, including a fitness center, outdoor pool, and a hot tub. For dining, there are several on-site restaurants and bars with ocean views. The resort is built on 26-acres of property where there is over 32,000 sq ft of flexible event space, including a grand ballroom, meeting rooms and outdoor venues with garden views.





Lido House Autograph Collection: This 4-star boutique hotel is comprised of 130 keys, with a mix of guest rooms and suites. Many of the suites feature private balconies or patios with views of the marina. The amenities on the property include a fitness center, outdoor pool and hot tub, and a full-service spa. They also provide activities/experiences such as sailing, paddleboarding and bike rentals. There is over 15,000 sq ft of indoor and outdoor event space, a grand ballroom and meeting rooms







Sonder Solarena: This 3-star boutique hotel is comprised of 32 fully furnished guest rooms and suites with fully equipped kitchens, offering privates balconies with ocean views. This self-service hotel offers few amenities including a fitness center and a limited concierge service. The hotel also offers beach amenities, such as towels, chairs, and umbrellas. For dining, the hotel offers a rooftop bar and lounge where guests can enjoy craft cocktails and small plates. There are also communal BBQ grills and fire pits. It is a good option for extend stays or travelers looking for a more independent experience, and is located next door to the subject property.





Newport Beach Hotel, Four Sisters Inn Collection: This 3-star boutique hotel is comprised of 20 keys, each with a unique décor, and some rooms featuring private balconies with ocean or city views. The hotel offers a daily breakfast buffet, and a communal living room with a fireplace and a selection of books and games. Other amenities include a rooftop deck with ocean views, and chairs and umbrellas for the beach. The hotel is situated a short walk away from the beach, harbor, and local attractions.







Balboa Inn, On the Beach: This historic 3-star inn is comprised of 45 keys each with a classic beach house décor, with some of the rooms featuring private balconies with ocean views. The hotel offers several an on-site restaurant and a rooftop bar with panoramic views of the ocean and a beachside café. Other amenities include a fitness center, business center, and beach amenities such as towels, chairs, and umbrellas. The hotel is situated on the beachfront, which makes it easy for travelers to participate in water activities.





Wyndham Costa Mesa/Newport Beach: This budget friendly 3-star hotel is comprised of 137 keys. The hotel offers a range of amenities including a fitness center, a business center, and an outdoor pool/hot tub. For dining, the hotel offers a daily complimentary breakfast buffet and an on-site restaurant which serves seafood. It borders between Costa Mesa and Newport Beach and is a short drive from the beach and attractions such as Disneyland, Knott's Berry Farm, and South Coast Plaza shopping center.





Doryman's Oceanfront Inn: This 3-star boutique hotel is comprised of 11 rooms each furnished with a unique décor. Some of the rooms also feature private balconies with ocean front views. For dining, the hotel offers a complimentary continental breakfast and an on-site restaurant which serves seafood and American cuisine. Other amenities include beach amenities, such as chairs and umbrellas, as well as a communal living room with a fireplace. The hotel is situated on the Balboa Peninsula steps away from the beach.



Demand for Lower-Cost Visitor Accommodations

Based upon our research, there are no proposed lower-cost visitor accommodation developments in the City. This is likely due to the high cost of land in the City, which discourages investors from developing any lodging facilities in the lowest-priced segment, as it is financially infeasible. High land costs force investors to develop higher-priced lodging. This Project will not impact the proposed development of lower-cost visitor accommodations.

Since there would be no loss to the supply of existing lower cost visitor accommodations due to the Project, the question is whether the Project would cause an increase in the demand for lower- cost visitor accommodations in the City. We are of the opinion that it would not. There has never been any correlation between the demand for lower-cost visitor accommodation and providing high-cost visitor accommodations.

Similarly, redevelopment of a vacant and abandoned hotel site into a new high-cost visitor accommodations will not generate demand for additional lower-cost visitor accommodation. Newport Beach Municipal Code Section 21.48.025(C) categorizes hotels into three different levels by their average daily room rates, as follows:

- High Cost
- Moderate Cost
- Low Cost

The proposed high-cost hotel rooms at the Project's site will be above the low cost visitor accommodations segment. Hotel guests staying in this range of accommodation have plenty of options for alternative lodging choices in the high cost classes, and would not likely end up staying in a low cost hotel. Virtually every other hotel in the City falls above the low cost category, and the supply of these alternative hotel choices is unchanged by the Project. Thus, the development of a 12 room boutique hotel would not create any new demand for the Extended Stay America, the single lower-cost visitor accommodation in the City.

In summary, since neither the supply of, nor demand for existing lower-cost visitor accommodations is impacted by the Project, we conclude the Project will not have any impact on the City's existing lower-cost visitor accommodations, and no mitigation measures are required.

Occupancy and ADR

According to the Visit California Monthly Research Dashboard for May 2023, the Average Daily Rate (ADR) for a hotel room in California was \$188.00. The Pine Knot Motel Rate is projected to be \$325.00, which is much higher than the average ADR. PKF also studied the pubished rates from the hotel sites within the market for an overall assessment of the price point and positioning. Based on our experience in the Southern California beach markets over the last decades,



PKF is confident that demand for the rooms at the subject property will be strong, if positioned well amidst the competing options in the market.

Rates

The following table gives an overview of the published rates of the selected geographic comp hotels at specific dates (please note that the reservation requests were made online through each hotel's respective website):

Chart 5 published rates of geographic hotels – standard rooms, not suites

Hotel	Balboa Bay Resort	Marriot Bayview	VEA Marriot Resort & Spa	Hyatt Regency	Lido House Autograph	Sonder Solarena	Four Sisters Inn
City	Newport Beach	Newport Beach	Newport Center	Newport Beach	West Newport	Newport Beach	Newport Beach
Month	\$	\$	\$	\$	\$	\$	\$
January Weekend	\$489	\$289	\$389	\$342	\$619	\$359	\$248
January Weekday	\$399	\$299	\$409	\$325	\$549	\$301	\$198
November Weekend	\$579	\$329	\$459	\$342	\$639	\$359	\$279
November Weekday	\$399	\$319	\$459	\$298	\$549	\$301	\$228

Balboa Inn	Ramada by Wyndham	Dorymans Oceanfront Inn	Comp Avg.
Newport Beach	Newport Beach	Newport Beach	
\$	\$	\$	\$
\$329	\$144	\$299	\$351
\$279	\$144	\$299	\$320
\$329	\$152	\$299	\$377
\$279	\$127	\$299	\$326

The table above shows that the published rates of the competitive set hotels during peak demand season are in the range of \$152 (Ramada by Wyndham) and \$639 (Lido House Autograph Collection) for a standard room on a November weekend. During the low demand period, rates range between \$144 (Ramada by Wyndham) and \$549 (Lido House Autograph) for a standard room on a January weekday. The average published rate of the analyzed hotels for a January weekend is \$351 and for a November weekday is \$326.

Rack rate to ADR ratio: Rack rates are the rates published by hotels, most easily found on their respective websites, often expressed in terms of standard, prepay, or package prices for different room types. The rack rate is the highest price a hotel will charge for a room, without any discounts or premiums. ADR (average daily rate) is a metric used to measure the average revenue a hotel receives for each occupied guest room per day. ADR differs from a rack rate in that it accounts for discounts and corporate rates, ultimately presenting a lower actual price based on revenue generated compared to the published rack rates.



Fiscal Impact

The renovation of the subject property, according to the owner's new architectural plans, will require between \$5.5 MM and \$6 MM in total costs, including acquisition of the existing motel. Assuming standard market financing assumptions, these costs will require that the property achieve a healthy EBITDA.

PKF has projected a 10-year operating proforma, based on our assessment of the market and the subject property plans. We have arrived at an ADR of \$325 in today's dollars and an occupancy of 75% in stabilized year 4. Including minimal additional income from the café's F&B operations, the total revenues in year 4 are projected to be \$1.657 milion. Assuming a limited-service model that relies on very few staff members, the projected EBITDA in year 4 is approximately \$593,000, and, after a 3% replacement reserve, approximately \$543,000, representing a 33% EBITDA margin.

With a 50% LTC ratio for the construction financing, at a 10% interest rate, and an exit in year 10 with an 8% cap rate, the project IRR is below 14%. A lower cap rate of 7% yields an IRR of 15.5%. PKF believes that the property must operate at the projected revenue and cost targets in order to be a viable development for its investors. This does not include any suggested reductions in ADR on the property, as the rooms represent 74% of the property's revenue.

We arrived at the ADR based on the assessment of the comparable properties in the market: Balboa, Four Sisters and Dorymans. Properties in the area offer amenities elsewhere so the hotel needs to be well positioned in order to be competitive against the existing supply. We felt that these three properties were most similar in terms of occupancy and ADR rates, however in most cases, these three properties offered amenities including: an on-site restaurant or bar and limited event space. The Four Sisters generally reflects the ADR PKF believes could be achieved at the subject property, based on the number of keys, décor and the size of the property.

PKF, based on a thorough site visit with first-hand market and industry intel, desktop research, and a review of similar domestic markets, concludes that the optimal positioning for a hotel product on the beach area site in Newport Beach, California is an upscale 12-key self service hotel. Given the nature of the market, the site's location within an affluent residential community, proximity to the beach and various attractions (Newport Harbor, Balboa Peninsula and Newport Downtown.

As a boutique hotel, the property will cater to a variety of guest segments including mainly leisure and smaller group business. The management of the small courtyard which is in the middle of the property will allow the hotel to cater to wedding parties, corporate events and conferences, and private parties. The site is within close driving distance to downtown Newport Beach, Huntington Beach and Cost Mesa, providing a well situated destination for leisure guests.



The hotel's positioning would sit in the middle of the 3-4-star supply of hotels in Newport Beach in terms of ADR. Within the supply of hotels we deemed most comparable, and ADR of \$325 will stay competitive within the market and attract a wide range of travelers. Within the set of hotels in Newport Beach, an occupancy of 75% in stabilized year is in line with the citiy's hotel supply.

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			Hote	el l	Prof	or	ma -	F	ull Y	'ea	r P&	λL	('00	0)						
	2025		2026		2027		2028		2029	,	2030)	2031		2032	?	2033		2034	!
	3		4		5		6		7		8		9		10		11		12	
	Year 1		Year 2	?	Year 3	?	Year 4	1	Year :	5	Year (6	Year .	7	Year a	8	Year :	9	Year 1	.0
Total Rooms	12		12		12		12		12		12		12		12		12		12	
Rooms Available	4,380		4,392		4,380		4,380		4,38		4,39		4,38		4,38		4,38		4,39	
Rooms Sold	2,953		3,093	3	3,216	5	3,303		3,30		3,27		3,37		3,34		3,34		3,27	
Occupancy (%)	67%		70%		73%		75%		75%		75%		77%		76%		76%		75%	
ADR	\$341		\$349		\$358		\$368		\$377		\$387		\$398		\$410		\$423		\$435 \$324	
Room RevPAR	\$230		\$246		\$263		\$277		\$284		\$288	3	\$307		\$313	3	\$323	3	\$324	+
Operating Revenue Room	1.010	73%	1.081	73%	1.155	74%	1.219	74%	1.249	73%	1.266	73%	1.338	74%	1.361	73%	1.395	73%	1.397	739
F&B	287	21%	299	20%	312	20%	328	20%	338	20%	348	20%	359	20%	370	20%	381	20%	392	209
Outlets / Other F&B	155	11%	160	11%	169	11%	174	10%	179	11%	184	11%	190	10%	196	11%	201	11%	208	119
Banquet/Conference/Catering	131	9%	139	9%	144	9%	155	9%	159	9%	164	9%	169	9%	174	9%	179	9%	185	109
Other Operated Departments	32	2%	34	2%	37	2%	38	2%	40	2%	40	2%	43	2%	44	2%	45	2%	45	2%
Retail	10	1%	10	1%	11	1%	12	1%	12	1%	12	1%	13	1%	13	1%	14	1%	14	19
Minor Operated Department	22	2%	24	2%	26	2%	27	2%	28	2%	28	2%	30	2%	31	2%	32	2%	32	29
Miscellaneous Income	58	4%	62	4%	66	4%	72	4%	74	4%	75	4%	80	4%	82	4%	84	4%	85	49
Total Operating Revenue	1,386	100%	1,477	100%	1,571	100%	1,657	100%	1,701	100%	1,729	100%	1,820	100%	1,856	100%	1,905	100%	1,919	1009
Departmental Expenses																				
Room	254	25%	262	24%	270	23%	279	23%	286	23%	292	23%	301	22%	308	23%	316	23%	322	239
F&B	163	57%	169	57%	175	56%	182	55%	187	55%	193	55%	198	55%	204	55%	210	55%	216	559
Other Operated Departments	13	40%	14	40%	15	40%	15	40%	16	40%	16	40%	17	40%	18	40%		40%	18	409
Retail	7	75%	8	75%	8	75%	9	75%	9	75%	9	75%	10	75%	10	75%		75%	10	759
Minor Operated Department	6	25%	6	25%	6	25%	7	25%	7	25%	7	25%	8	25%	8	25%	8	25%	8	259
Total Departmental Expenses	429	31%	445	30%	461	29%	476	29%	489	29%	501	29%	516	28%	530	29%	544	29%	556	299
Departmental Profit																				
Room	756	55%	819	55%	885	56%	940	57%	964	57%	973	56%	1,037	57%	1,053	57%	1,079	57%	1,075	569
F&B	124	9%	130	9%	137	9%	146	9%	151	9%	156	9%	161	9%	166	9%	171	9%	176	99
Other Operated Departments	19	1%	21	1%	22	1%	23	1%	24	1%	24	1%	26	1%	26	1%	27	1%	27	19
Minor Operated Department	17	1%	18	1%	19	1%	20	1%	21	1%	21	1%	23	1%	23	1%		1%	24	19
Miscellaneous Income	58	4%	62	4%	66	4%	72	4%	74	4%	75	4%	80	4%	82	4%	84	4%	85	49
Total Departmental Profit	957	69%	1,032	70%	1,110	71%	1,181	71%	1,212	71%	1,228	71%	1,304	72%	1,326	71%	1,361	71%	1,363	719
Undistributed Operating Expenses Administrative & General	251	18%	259	18%	252	16%	260	16%	267	16%	273	16%	281	15%	288	16%	295	16%	302	169
Information & Telecommunication Ser	231	2%	30	2%	31	2%	33	2%	34	2%	35	2%	36	2%	37	2%	38	2%	38	2%
Sales & Marketing	92	2% 7%	98	2% 7%	105	2% 7%	111	7%	113	2% 7%	115	2% 7%	122	2% 7%	124	7%	127	7%	127	79
Property Operation & Maintenance	63	5%	65	4%	66	4%	68	4%	70	4%	71	4%	73	4%	75	4%	77	4%	79	49
Utilities	42	3%	44	3%	47	3%	50	3%	51	3%	52	3%	55	3%	56	3%	57	3%	58	3%
Total Undistributed Expenses	475	34%	496	34%	502	32%	522	31%	535	31%	546	32%	567	31%	580	31%		31%	604	319
Gross Operating Profit	482	35%	535	36%	608	39%	659	40%	677	40%	682	39%	737	40%	747	40%		40%	759	409
Income Before Non-Operating Income	482	35%	535	36%	608	39%	659	40%	677	40%	682	39%	737	40%	747	40%		40%	759	409
Non-Operating Income and Expenses		Ĵ				ĺ		Ţ,		Î				ĺ						
Property and Other Taxes	52	4%	52	4%	52	3%	52	3%	52	3%	52	3%	52	3%	52	3%	52	3%	52	3%
Insurance	12	1%	13	1%	13	1%	14	1%	14	1%	15	1%	15	1%	16	1%	16	1%	16	19
Total Non-Operating Income and Expe	64	5%	65	4%	66	4%	66	4%	67	4%	67	4%	68	4%	68	4%		4%	69	49
EBITDA	417	30%	471	32%	542	35%	593	36%	610	36%	615	36%	669	37%	679	37%		37%	690	369
Repalcement Reserve	36	3%	44	3%	47	3%	50	3%	51	3%	52	3%	55	3%	56	3%	-	3%	58	3%
EBITDA less Replacement Reserve	382	28%	426	29%	495	32%	543	33%	559	33%	563	33%	614	34%	623	34%	641	34%	633	339



Concluding Remarks

In summary, it is not feasible to include lower-cost visitor accommodations on the Project site. This infeasibility is due to the site's high land value, the Project's high development costs, and the small site size. Additionally, since neither the supply of, nor demand for existing lower-cost visitor accommodations is impacted by the Project, we conclude the Project will not have any impact on the City's existing lower-cost visitor accommodations, and no mitigation measures are required under Newport Beach Municipal Code Section 21.48. Based on the assessment of the hotel supply in the market and broader Orange County area, the proposed hotel should perform well with a \$325 ADR, achieving 75% occupancy overall. The seasonality will drive these up and down, but the hotel benefits from being a 7-days a week operation, not a resort-only or business-only market. Guests who enjoy self service with the ease of checking in and checking out, and appreciate the freedom that this hotel will offer will provide a well positioned hotel within the Newport area market. Family and group stays can be a draw, as there are a handful of larger rooms which can accommodate families and larger parties of friends or retreats.

nenewThe financial performance of the hotel rests almost entirely on the room rentals, and therefore rate is critical to maintain the property's viability. PKF believes the hotel will have to push as much on rate as it can, without offering the on-site amenities that many of its competitors offer. A forced cap on room rates would therefore be very damaging to the overall returns.

PKF remains available to comment on the analysis provided.
Thank you,
Channing Henry