Appendix O

Market Study of the Proposed Waterfront Revitalization Project

Market Study of the Proposed Waterfront Revitalization Project

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Section 1: Executive Summary

This report evaluates the demand for an estimated 470,000 square foot waterfront revitalization project to be located on 36-acres in and around the Redondo Beach Pier. This proposed waterfront development will replace approximately 200,000 gross square feet of existing commercial office and retail space resulting in approximately 290,000 net new square feet of commercial space. Proposed program elements include food and beverage, a market hall, a luxury movie theater, boutique hotel, and creative office space.

In summary, current and anticipated future market demand appears sufficient to support the proposed Project's programming. AECOM's analysis on comparable development of similar quality and scale suggest that the project will perform strongly in the market based on its mix of proposed uses. A detailed summary of the competitive market area, retail, dining, and entertainment or RDE, upscale boutique hotel, and creative office components are provided below.

Please note that all performance estimates are presented in constant 2014 dollars unless stated otherwise and AECOM has provided a range of performance estimates based on an underperform, target, and outperform scenario. In all cases, except the RDE component, a target estimate has been presented herein (for RDE, the presented information has been calibrated between the target and outperform scenarios). However, analysis of anticipated demand and supply dynamics as well as comparable development's performance suggest that an outperform scenario could be achievable for all uses and an underperform estimate is less likely.

MARKET AREA

The competitive market area for the proposed Project is based on the expected shopping patterns of residents, workers, and visitors. The trade area was further broken out into various subareas to tailor retail demand estimates to the different expenditure profiles of the segments. The market area definitions in this report are consistent with shopping center trade areas defined by the International Council of Shopping Centers and the Urban Land Institute, and is consistent with observations regarding potential customers and the market context in Redondo Beach and the South Bay.

The primary residential market area typically provides the largest source of sales for a retail establishment or retail center. As for similarly-sized retail, dining, and entertainment projects, the primary market area is defined as a 10-minute drive time. For the purposes of evaluating a secondary market area, a 10- to 30-minute drive time was used to capture the majority of spending that is anticipated to occur from those residents outside the primary market area.

Regional and local employment growth will also provide a source of demand for the retail, office, and hotel component of the proposed Project. To estimate retail demand, a 5-minute drive time was evaluated as the primary source of non-resident employee spending at the proposed Project. Employees within a 10-minute drive provide a secondary source of non-resident employee spending at the proposed Project.

To estimate demand for office space, the primary market area was defined as the City of Redondo Beach, with the secondary market area defined as the larger South Bay. The primary visitor market for hotel demand was defined as Redondo Beach, with a secondary market comprising the South Bay.

RETAIL DINING ENTERTAINMENT

The most widely used shopping center classification system is from the International Council of Shopping Centers, which divides shopping centers into two major categories: Malls and Open-Air. These two categories are divided further into subcategories based on the various other characteristics. The proposed Project is different from a typical shopping center due to an emphasis on dining and related entertainment components. RDE centers vary widely in the size and characteristics of projects that may be identified as such, and typically consist of retail, dining, and entertainment within a pedestrian-friendly and multi-use environment. The uses are intended to complement each other, creating a multi-faceted leisure experience, thereby increasing the proposed Project's overall attractiveness to visitors. In contrast to more traditional shopping environments such as malls and open air centers, an RDE-orientation leads to an increase in the frequency of visitation; the distance visitors' travel; and the amount of time and spending captured at the development.

There is a high level of competition in the retail market in the South Bay. The proposed Project is positioned to compete with existing and proposed RDE/Lifestyle development and indirectly with other more traditional shopping districts and shopping center environments. In addition, two projects (Runway and The Point) are currently under development that will represent the most direct competitive shopping center development, upon completion, to the proposed Project.

The following table provides a summary of the total estimated market demand for retail, dining, and entertainment uses at the proposed Project. This is sufficient to support the proposed RDE program of approximately 305,000 square feet.

	Year 1 (Opening)	Year 5 (Stabilized Operations)
Food & Beverage (Dining)	$90M	$102M
Retail / Entertainment	$84M	$94M
Total Demand	$174M	$196M

Source: Figure 23, Figure 24, Figure 25

Based on the level of demand, rent survey, and historic performance of comparable properties, implied sales for the proposed Project have been determined based on a range of possible scenarios. Using the total demand estimate as a guide, retail, dining, and entertainment sales at the proposed Project are estimated to total $196 million during stabilized operations (Year 5).

The estimated sales per square foot by RDE component at stabilized operations (Year 5) is estimated below:

	Sales Per Square Foot
Food & Beverage (Dining)	$900
Retail / Entertainment	$800
Entertainment	$325
Total	$780

Source: Figure 26, AECOM

The proposed Project includes a specialty or luxury cinema as the entertainment component of the RDE. While the competitive market appears to have a significant number of traditional cinemas, the proposed specialty theater would be unique to the area and could potentially generate sales volumes significantly higher than estimated in this study. Given the anticipated capture of entertainment spending and market demographics for the proposed Project, the proposed luxury cinema concept appears to be marketable.

BOUTIQUE HOTEL

The proposed hotel will operate within the context of the South Bay tourist submarket. Local visitation trends and competitive hotel properties within the submarket will affect demand and financial performance at the proposed Project.

Redondo Beach has an estimated inventory of 1,383 rooms in 14 hotel or motel properties, representing 16% of the South Bay hotel room inventory. In comparison to the hotels in the surrounding cities of Manhattan Beach and Hermosa Beach, the room supply in Redondo Beach is the largest among the beach cities. Approximately 67 percent of the hotels in Redondo Beach are classified in the upper-priced market segment, compared to the South Bay's inventory of upper-priced rooms – approximately 48 percent.

The proposed hotel is expected to be a boutique product. Hotels in this category often create and promote a stylish, luxurious, aspirational, or avant-garde ambiance for hotel guests. Many boutique hotels also include a signature restaurant or bar. Hotels in the boutique segment are typically concentrated in the luxury, upper-upscale, and upscale chain and class categories, which distinguishes them from similarly sized budget hotels, have an actual or estimated room rate double the nationwide average, and typically have fewer than 150 rooms.

A survey of local hotels was created in order to compare the historic performance of select properties within Redondo Beach submarket relative to the larger submarket and market areas. Based on an assessment of the submarket area, two existing properties (Shade Hotel in Manhattan Beach and Beach House in Hermosa Beach) are directly comparable to the boutique hotel envisioned at the proposed Project. There are five additional properties currently under construction or in planning stages (The Redondo Beach Hotel, Shade Hotel in Redondo Beach, Provenance Hotel, Clash Hotel, and OTO Hotel in Hermosa Beach) with over 670 additional rooms that will be considered primary competition to the proposed project.[1] Currently the reporting properties in the local survey appear to be headed towards an average 2014 ADR of $203 with occupancy rates over 80 percent.

Boutique hotels will typically command a higher ADR than other hotel properties, with a premium up to 20 to 30 percent above market pricing for competitive properties. Based on current pricing at the existing competitive properties (Shade and Beach House), the ADR at the proposed Project might be well above the local reporting properties. However, to be conservative, it is assumed that the ADR for the hotel property will start at $230 in 2014 dollars. Occupancy rates are assumed to stabilize in line with the competitive hotel properties. For planning purposes, a target occupancy level in the opening year (Year 1) is projected at 65% and is anticipated to increase to 80 percent upon hotel stabilization (Year 5).

The following table provides a summary of the total estimated market demand for hotel use at the proposed Project. This is sufficient to support the proposed hotel program of approximately 120 rooms.

	Year 1 (Opening)	Year 5 (Stabilized Operations)
Gross Revenues	$10.5 M	$12.9 M
ADR	$240	$240
Occupancy	65%	80%
RevPAR	$160	$190

Source: Figure 35, Figure 36

[1] Total does not include renovation of The Redondo Beach Hotel as that product was previously in the market and considered part of the existing room supply in Redondo Beach and the larger South Bay hotel market area.

CREATIVE OFFICE

The proposed office will operate within the context of the South Bay commercial office market, part of the larger South Bay submarket. The Los Angeles County office market comprises approximately 462 million square feet of space, of which the South Bay represents 55 million square feet or 11 percent. Within the South Bay, Redondo Beach provides approximately 2.5 million square feet, or 5 percent, of local supply.

The proposed Project is expected to include certain elements of creative office space. Creative office is an emerging category of office space that is typically marketed to or sought out by established technology firms, entertainment-related entities, creative professionals, and start-ups. Tenants searching for creative office space are likely to seek space with the following characteristics:

- Industrial finishes such as unfinished concrete floors and open ceilings
- Amenities such as private or share outdoor space for working and socializing
- Location near other creative office tenants
- Rents higher than typical Class B or Class office rents

Two new-to-market properties serve as creative office benchmarks in the South Bay: Runway at Playa Vista and The Grand Kansas in El Segundo.

Demand for office space in Redondo Beach stems from regional employment growth. Employment growth and required office space are developed from fair share capture estimates of regional growth projections, in which 30% of total future employment growth is anticipated to require office space.

The proposed Project is projected to capture a significant amount of estimated office demand in Redondo Beach due to:

- Projected growth in regional employment
- Lower vacancies in Redondo Beach compared to the South Bay and Los Angeles County
- Higher rents in Redondo Beach compared to the South Bay
- Lack of recently developed office property in Redondo Beach
- Lack of planned and proposed office space outside of this proposed Project
- Oceanfront location
- Mixed-use development context

The market provides sufficient demand to support the proposed office program of approximately 45,000 square feet. Achievable office rent for the proposed Project is estimated at $3.50 full service gross [2] per square foot. The following table provides a summary of the estimated gross rental revenues for creative office use at the proposed Project.

	Year 1 (Opening)	Year 5 (Stabilized Operations)
Achievable Rent ($PSF/month FSG)	$3.50	$3.50
Occupancy	75%	95%
Gross Revenue	$1.4M	$1.8M
Revenue per square foot	$31.50	$39.90

Source: Figure 55

[2] Full Service Gross (FSG) - a rental rate that includes normal building standard services which are provided and paid by the landlord.

Section 2:
Site & Market Overview

PROPOSED CONCEPT

CenterCal Properties (CenterCal) has proposed a $300 million waterfront revitalization development (proposed Project) in Redondo Beach, California. The proposed Project will redevelop 36-acres in and around the Redondo Beach Pier to include food and beverage offerings (F&B), a market hall with retail and dining offerings, a luxury movie theater, a boutique hotel, and creative office space. The specific gross square footage associated with the proposed Project at this stage of planning is provided in the figure below. The program replaces approximately 200,000 gross square feet of existing commercial (office/retail) space resulting in approximately 290,000 square feet of net new development.

Figure 1 – Proposed Program

Proposed Program	Gross Square Feet
Retail, Dining, Entertainment (RDE)	
Market Hall	90,000
Retail & Food & Beverage	180,000
Entertainment	35,000
RDE Subtotal	305,000
Office	45,000
Hotel (120 rooms)	120,000
Total	470,000

Source: CenterCal

SITE LOCATION & ACCESS

The Redondo Beach Pier is primarily accessed from the north and south via Catalina Avenue. A key point of access and visibility is located at the intersection of Pacific Coast Highway and 190th Street where signage exists for King Harbor. From the South, the intersection of Torrance Boulevard and Catalina Avenue lead into the existing parking structure for the Pier. Beryl Street provides access from the east in between the major north and south points of site access.

The proposed Project site is also located adjacent to Pacific Coast Highway, which is a major thoroughfare in the South Bay. Recent traffic counts provided from the City as of 2008 and MPSI, a leading provider of comprehensive published traffic count data, from 2010 and 2012 suggest the following average daily traffic volume in and around the proposed Project site:

- North Harbor Drive: ~10,500 vehicles
- Catalina Avenue: ~18,000 – 23,000 vehicles
- Pacific Coast Highway: ~40,000 – 50,000 vehicles

Figure 2 – Site Map

Source: CenterCal; AECOM

AVAILABLE MARKETS

This analysis frequently references the market area. A market area is the geography from which a business or business center draws the majority of its customers. The market area boundaries are based on the expected shopping behavior of residents, visitors, and employees. The following discussion provides information on the market areas from which the proposed Project will draw customers. The various market areas presented in this section will be referred to later in the analysis to estimate demand for the proposed uses at the proposed Project.

RESIDENTIAL MARKET

The primary market area typically provides the largest source of sales for a retail establishment or retail center. As for similarly-sized retail, dining, and entertainment (RDE) projects, the primary market area is defined as a 10-minute drive time. For the purposes of evaluating a secondary market area, a 10- to 30-minute drive time was used to capture the majority of spending that is anticipated to occur from those residents outside the primary market area. While residents will come from beyond a 30-minute drive time, larger trade areas become indistinguishable and more difficult to calibrate anticipated demand. This 10- to 30-minute drive time has been adjusted to incorporate traffic conditions at peak commuting hours.

Estimates of household income are presented in constant 2014 dollars and have not been increased to reflect growth in future household income levels in the market. This is a conservative approach that maintains current levels of spending power within the market.

The primary and secondary market areas can be characterized as low growth, high income areas compared to the larger region, particularly the primary market area.

Figure 3 – Household Market Demographics

	2014	2019
Primary Market Area		
Households (HH)	48,732	49,713
Average HH Income (2014$)	$117,228	$117,228
Secondary Market Area		
Households (HH)	162,550	166,324
Average HH Income (2014$)	$98,230	$98,230

Source: ESRI Business Analyst

EMPLOYEE MARKET

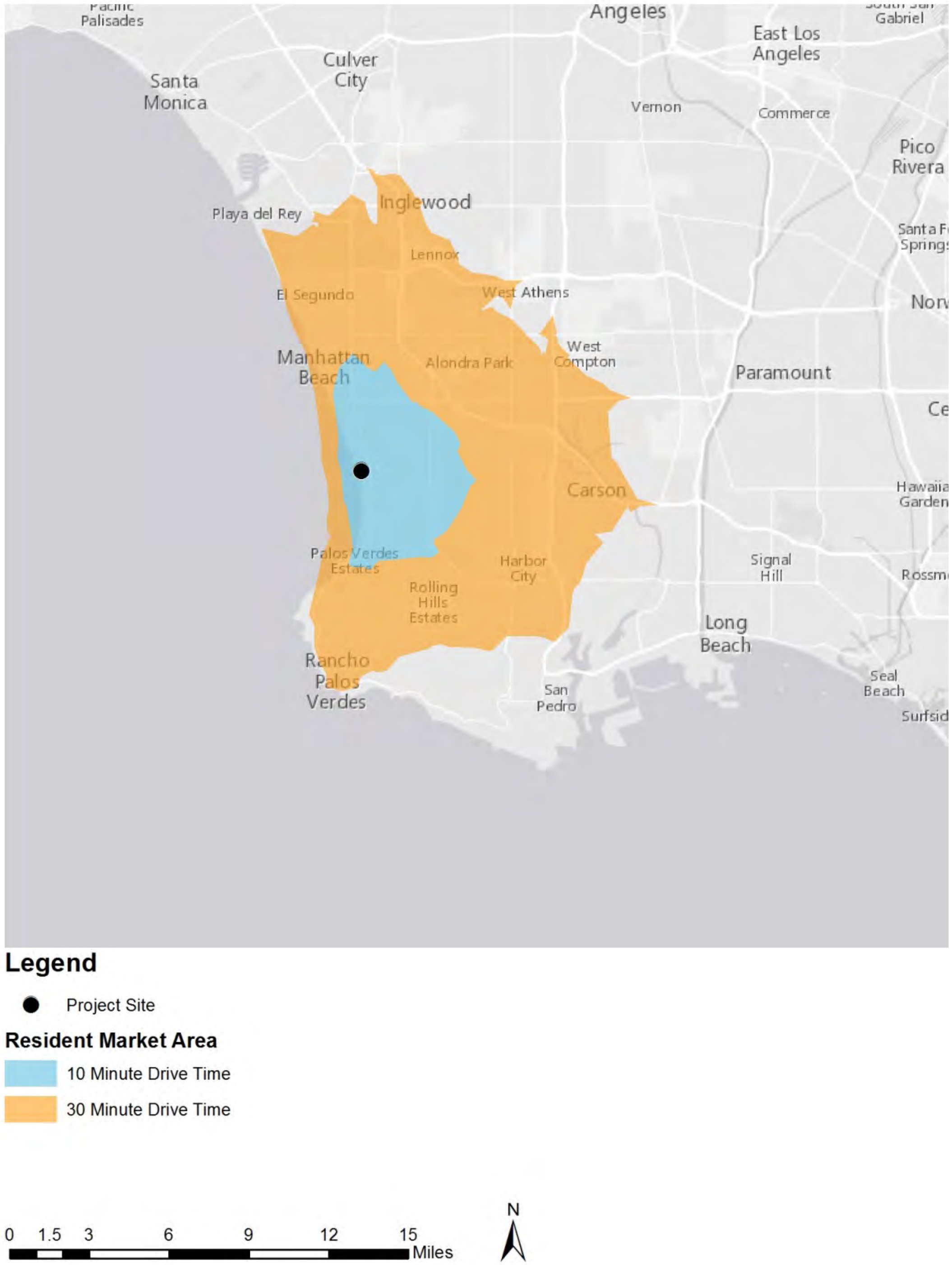
Regional and local employment growth will also provide a source of demand for the retail, office, and hotel component of the proposed Project. To estimate retail demand, a 5-minute drive time was evaluated as the primary source of non-resident employee spending at the proposed Project. It is typical to assume that employees will drive five-minutes to eat, shop, or run other errands during lunch or other times, given time constraints during the work day combined with a traditional one-hour lunch break. The 5-minute drive time represents the likely distance threshold that most employees will travel for lunch or after work activities. Similar to the residential market, a secondary employee trade area has been established that captures additional spending that will be attracted to the proposed Project.

The following table presents the number of employees in the available market area. The estimate excludes those people who live and work in the market area as they are included in the resident market. Estimates of employment growth are based on the employment growth estimate of the California Employment Development Department, which is discussed in the office section later in this document.

To estimate office demand, the primary market area was defined as the City of Redondo Beach, with the secondary market area defined as the larger South Bay (see Figure 45 for a map of the trade areas).

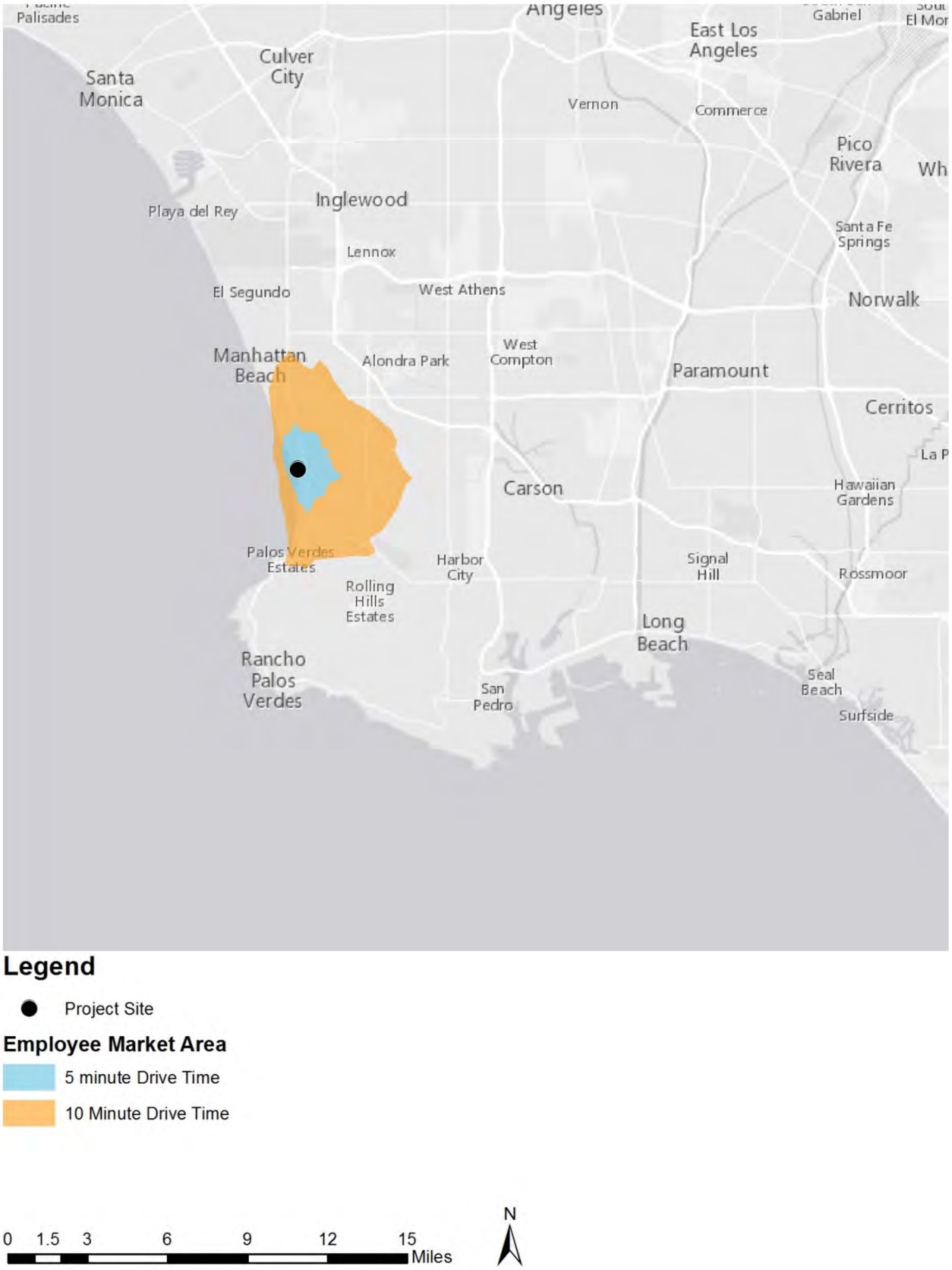
While employment growth does influence demand for hotel rooms, the analysis did not specifically consider employment growth as an input to estimate hotel room night demand.

Figure 4 – Map of Residential Market Area



Source: ESRI Business Analyst; AECOM

Figure 5 – Map of Employee Market Area



Source: ESRI Business Analyst; AECOM

Figure 6 – Employment Market

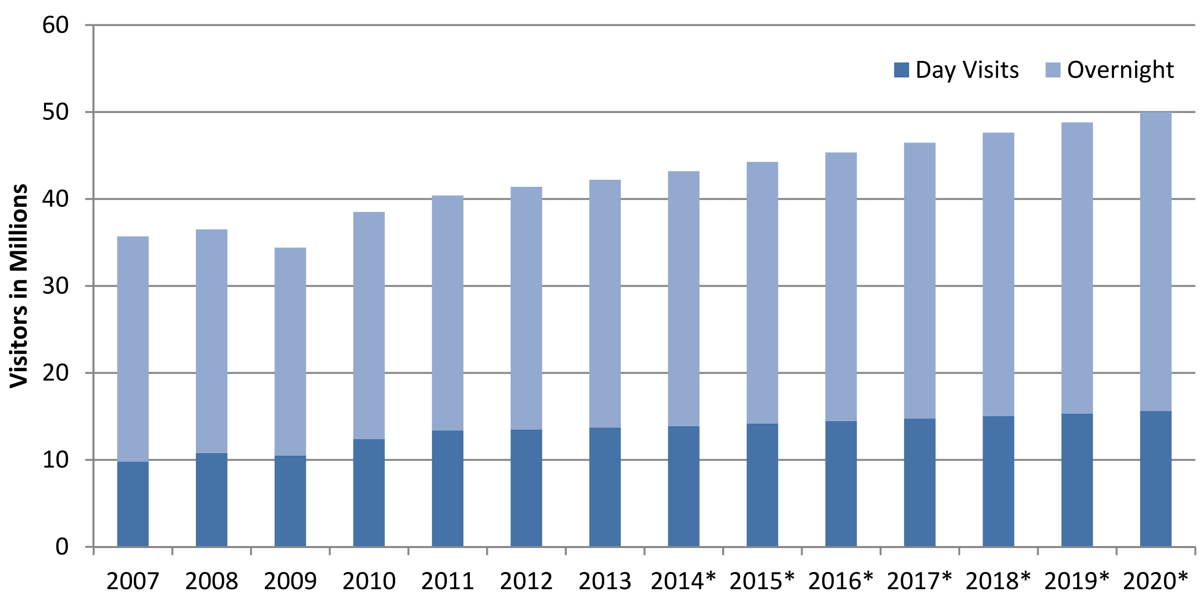
	2014	2019
Primary Market Area		
Employed and Living Outside the Primary Market	7,121	7,590
Secondary Market Area		
Employed and Living Outside the Secondary Market	43,142	46,000

Source: ESRI Business Analyst; US Census OnTheMap: Longitudinal Employer-Household Dynamics, California EDD

TOURIST MARKET

The Los Angeles region is one of the Country's top vacation destinations. The region benefits from being a semi-arid climate with mild, sunny weather throughout the year. The region has significant visitor amenities, such as beaches, recreation, commercial and cultural attractions, and hotels/resorts. There were approximately 28.5 million overnight visitors to Los Angeles in 2013. The majority of overnight visitors stay in hotels or motels. Consistent with national trends, the region experienced a general drop in visitors between 2006 and 2009 and has since seen increases in total visitor volume to record levels (over 42 million total overnight and day visitors). Between 2009 and 2013, total visitation has increased by over 5 percent per year. Total visitation has been driven by increased day visits as well as growth in the overnight international visitor market segment (fueled in part by an increase in Chinese visitors). It is forecasted that the Los Angeles region will reach 50 million total visitors by 2020.

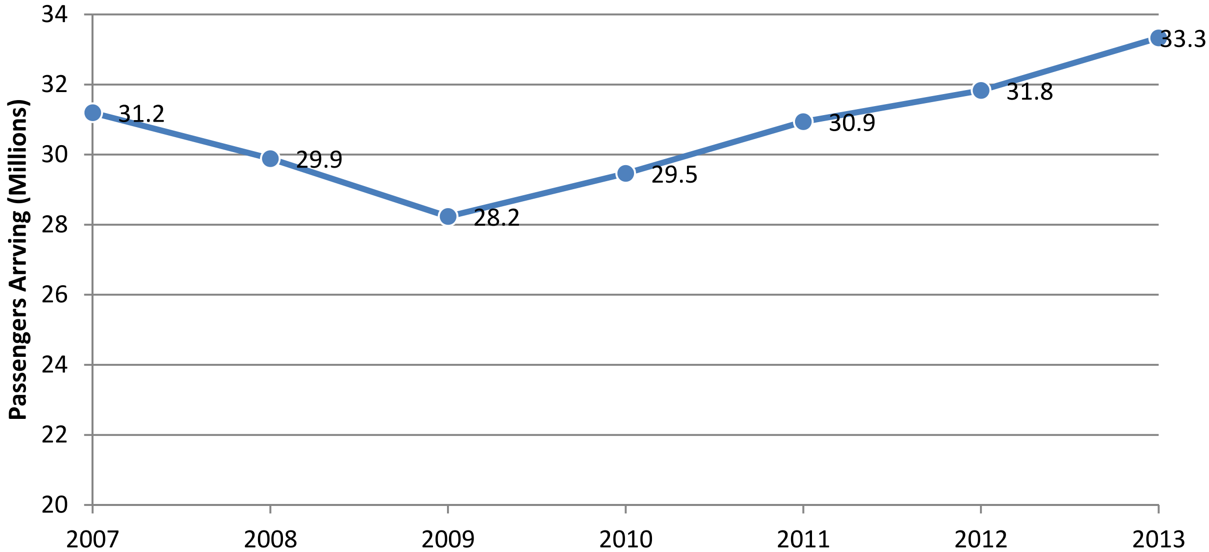
Figure 7 – Los Angeles Region Visitor Volume



Note: * = Projected
Source: Discover Los Angeles; AECOM

To evaluate the general health of the larger overnight tourist market, additional historic data points that provide insight on recent trends that will affect the marketability of the proposed Project site were evaluated. Los Angeles International Airport (LAX) is the largest airport in the region. LAX is located approximately 8 miles from the proposed Project Site and had more than 33 million passenger arrivals in 2013. Similar to the overnight visitor data, airport arrivals declined during the recessionary period and have slowly increased since 2010 (Figure 8). Before the recession, from 2003 to 2007, there was generally a steady increase in airport arrivals from about 27.5 million to 31.2 million. This increase represented an annual growth rate of approximately 3 percent. Since 2010, airport arrivals have increased by approximately 4 percent a year.

Figure 8 – Los Angeles International Airport Arrivals



Source: LAX

In a recent interview,[3] Marriot CEO Arne Sorrenson, noted that the national lodging and travel industries were fully recovered from the recession and poised for near-term growth. For the last 18 months Marriot has performed above peak occupancy levels. This growth has come from both the leisure and business consumer markets. The leisure consumer segment overnight stays has increased on the weekends, fueled by retired baby boomers and increased disposable income, which has brought occupancies higher to where they were in 2000 or 2007 (previous peak markets). Peak business travel times (Tuesday through Thursday) have continued to show strength as the economy continues to improve from the recession.

Looking forward, the economic picture for the United States and Los Angeles County has become optimistic as the recovery continues. A combination of continued low interest rates, the ongoing stabilization of the housing market, decrease in unemployment, as well as general improvements in consumer confidence and business spending are positive indicators for future tourism growth in the region.

South Bay Market Overview

The South Bay area is renowned for its picturesque beaches, location near LAX, and 45 minute drive proximity (without traffic) to most of Los Angeles' major attractions. The three beach cities (Manhattan Beach, Hermosa Beach, and Redondo Beach) pair the appeal of the quintessential Southern California beach town with proximity to urban Los Angeles.

The South Bay area submarket, as defined by PKF Hospitality Research (PKF), consists of hotels located near the Pacific Ocean in the cities of Manhattan Beach, Hermosa Beach, Redondo Beach, as well as properties located inland in the cities of Hawthorne, Lawndale, Gardena, Torrance, Lomita, Palos Verdes, Rolling Hills, and Carson. As reported by PKF, there are approximately 11,400 total hotel rooms in the South Bay submarket area, making up 11.6 percent of the total Los Angeles hotel room supply.

[3] Maria Bartiromo "It's full steam ahead in 2015 for Marriott and CEO Sorenson" USA Today (December 17, 2014)

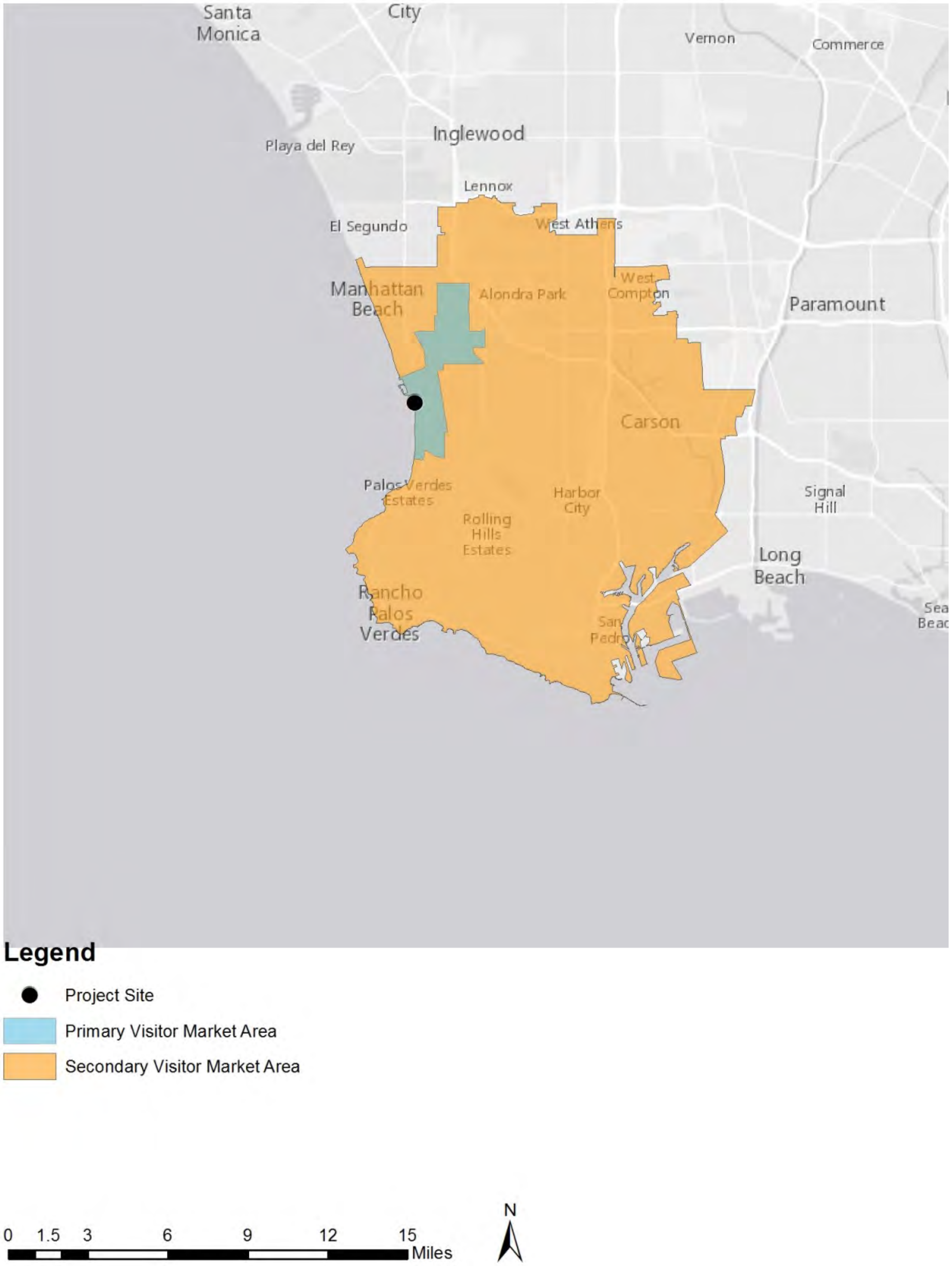
Since there are no statistics available regarding the number of overnight visitors in the South Bay, the order-of-magnitude overnight visitor market was estimated using commercial hotel information. Assuming that the average length of stay and persons per party is consistent with the region, there were an estimated 313,000 visitors in Redondo Beach (primary market) and 2.4 million overnight visitors in the South Bay (secondary market) in 2014. These visitors represent the available tourist market for the proposed Project.

Figure 9 – Visitor Market

	Primary		Secondary	
	2014	2019	2014	2019
Hotel Inventory [1]	1,383	1,514	9,667	10,583
Average Occupancy [1]	80%	80%	80%	80%
Average Annual Room Nights	403,836	442,114	2,822,721	3,090,276
Average Length of Stay (nights) [2]	3.3	3.3	3.3	3.3
Number of Parties	122,375	133,974	855,370	936,447
Average Number of Persons per Party [2]	2.6	2.6	2.6	2.6
Number of Persons Staying in Commercial Hotels	313,279	342,973	2,189,748	2,397,305

[1] PKF Horizons (2014)
[2] Visit Los Angeles
Source: AECOM

Figure 10 – Map of Tourist Market Area



Source: PKF; AECOM

Section 3:
Retail Dining Entertainment Analysis

The focus of this section is to evaluate the market context for a potential new restaurant and entertainment retail-anchored destination as the primary uses and activators of future mixed-use development at the proposed Project. Much of the analysis within this section is based on a combination of general shopping center trends, RDE trends, observations, and information collected on the local market.

SHOPPING CENTER BACKGROUND

Before evaluating the supply and demand characteristics of the South Bay market, it is useful to review characteristics generally associated with retail shopping centers. The most widely used shopping center classification system is from the International Council of Shopping Centers (ICSC), which divides shopping centers into two major categories: Malls and Open-Air. These two categories are divided further into subcategories based on the following characteristics:

- Concept: This descriptor refers to the underlying business strategy or model that distinguishes the shopping center or helps characterize its overall operations. The defined “concept” captures the theme or market positioning offered by centers within the broader categories, including such characteristics as convenience, customer-orientation, entertainment, merchandise lines, and price points.
- Size: This attribute provides an indication of the massing of the center, including both anchor tenants and other tenants.
- Acreage: This refers to the typical land assemblage required to house the retail space, along with parking and ancillary services necessary to the operation of the respective types of centers.
- Typical Anchors: This attribute provides a profile of the type, size, and business orientation of the major anchor tenants that are typically housed in the particular type of centers.
- Anchor Ratios: This measure provides an indication of the mix of anchor and non-anchor tenants, including in-line retail tenants.
- Primary Trade Areas: This element indicates the typical size of the Primary Trade Area from which the respective centers typically draw the bulk (i.e., 60%–80%) of their customer sales.

Using these subcategories, the ICSC has developed categories of shopping centers, as shown in Figure 11. While these categories provide a useful framework to identify and distinguish shopping centers, it is not an unambiguous system, necessitating the simultaneous consideration of multiple characteristics rather than looking at them individually or sequentially. In particular, as with the proposed Project, many shopping centers have added entertainment and lifestyle-type attributes in an effort to create more attractive shopping experiences for customers and increasing their drawing power or market penetration. As a result, the proper classification of a center may be subjective/qualitative in nature and based in a lesser or greater degree on the image that the center conveys.

Figure 11 – ICSC Shopping Center Categories

Type	Concept	Site / SF	Anchor Info	Primary Trade Area
Mall				
Super Regional	Similar to Regional Mall with more variety	60 – 120 acres / 800+ SF	3 or more (Full-line/Jr. department store w/ 50 -70% anchor to in-line ratio)	5 - 15 Minutes
Regional	General Merchandise; fashion	40 – 100 acres / 400 – 800K SF	3 or more (Full-line/Jr. department store w/ 50 -70% anchor to in-line ratio)	5 - 15 Minutes
Open Air				
Community	General Merchandise; convenience	10 – 40 acres / 100 – 350K SF	2 or more (Discount department; supermarket; drug; home improvement w/ 40 – 60% anchor to in-line ratio)	3 - 6 minutes
Neighborhood	Convenience	3 – 15 acres / 30 – 150K SF	Supermarket w/ 30 – 50% anchor to in-line ratio)	0 – 3 minutes
Lifestyle	Upscale national chain specialty dining and entertainment in outdoor setting	10 – 40 acres / 150 – 500K SF	Not usually anchored in traditional sense, may include specialty retailer, cinema, small department w/ 0 – 50% anchor to in-line ratio	8 – 12 minutes
Power	Category dominant anchors; few small tenants	25 – 80 acres / 250 – 600K	3 or more (warehouse; category killer w/ 0 – 50% anchor to in-line ratio)	25 – 75 minutes

Notes: (1) Primary trade area typically accounts for 60 to 80 percent of the visitors to a shopping center
Source: International Council of Shopping Centers; ULI; AECOM

RETAIL DINING ENTERTAINMENT BACKGROUND

It has been assumed that future RDE development will differentiate from the standard shopping centers and retail development found in the local/regional market by increasing the emphasis on the dining and related entertainment components. While each RDE development is different in its orientation, it is useful to review the characteristics of such projects to better understand their key attributes.

Similar to the previously discussed shopping center classifications, RDE centers vary widely in the size and characteristics of projects that may be identified as such. As discussed, these projects consist of retail, dining, and entertainment within a pedestrian-friendly and multi-use environment. The uses are intended to complement each other, creating a multi-faceted leisure experience, thereby increasing the proposed Project’s overall attractiveness to visitors. In contrast to more traditional shopping environments, RDE leads to an increase in the frequency of visitation; the distance visitors’ travel; and the amount of time and spending captured at the development.

RDE projects generally fall into two categories: cultural/entertainment districts and destination development complexes. Cultural/entertainment districts are typically urban areas that have been repositioned through the redevelopment of existing properties, addition of leisure-oriented tenants, and provision of improved pedestrian environments. Frequently this involves the provision of a major regional destination anchor, such as a stadium/arena, convention center, and/or cultural centers such as museums, performance venues, and public space. These are typically the effort of a combined public-private partnership, with numerous parties involved in their development, including land owners, developers, and operators, as well as community agencies, leaders, and groups. Cultural and entertainment districts result in numerous benefits to both sectors, including an improved image, greater resident and tourist visitation, increased sales, greater employment, increased property values, and associated taxes.

Destination development complexes are similar, but are generally developed, owned, and operated by one or a limited number of parties, resulting in a cohesive property with unified operation/management, similar to a traditional shopping center. From an operating perspective, the landlord-tenant relationship is similar to those at typical retail centers, with tenants paying rents and common area charges, and management responsible for operations (e.g., utilities, maintenance, common areas maintenance, design codes, programming, mediation, and recruitment).

Destination complexes are different from traditional shopping centers in the following ways:

- Rents tend to be higher due to a greater level of design quality, larger common areas, higher levels of programming, and sometimes more desirable locations.
- The tenant mix has a greater emphasis on entertainment-oriented retail, dining, and entertainment.
- Amenity levels and reinvestment rates are higher.
- The retail, dining, and entertainment components are frequently mixed with other uses, such as hotels, offices, and residential.

Anchors tend to be more varied (e.g., not department stores) with intention of:

- Creating activity on-site via entertainment (multiplexes, live-performance venues, etc.)
- Extending activity on-site via unique dining (signature restaurants, themed bars/restaurants, entertainment bars/clubs etc.)
- Inducing visitation via iconic or unique retail/restaurant operators

While RDE projects are generally smaller than regional/super regional malls, they typically outperform such malls on nearly every other measure if well located, developed, and operated.

Figure 12 – General Performance of Regional Mall versus Destination Development (National)

Measure	Regional Mall	Destination Development
Average Sales Range	$300 - $500+ PSF	$500 - $800+ PSF
Repeat Visitation	Average three times per month	Average two to four times per month
Regional Dominance	Achieved through department store anchors, scale, and tenant mix	Achieved through unique-to-region offerings
Multi-segment Appeal	Limited; visits tend to focus on shopping trips	Broadened via entertainment and dining offerings
Length of Stay	1.5 hours	3.0 hours
Demand-Period Productivity	Distributed across various times of day and week	Concentrated during specific evening and daytime periods; tourist and leisure activities improve productivity during low demand periods
Tourist Draw	Limited	Potentially 10 - 40 percent of base

Source: Urban Land Institute; MRA International; AECOM

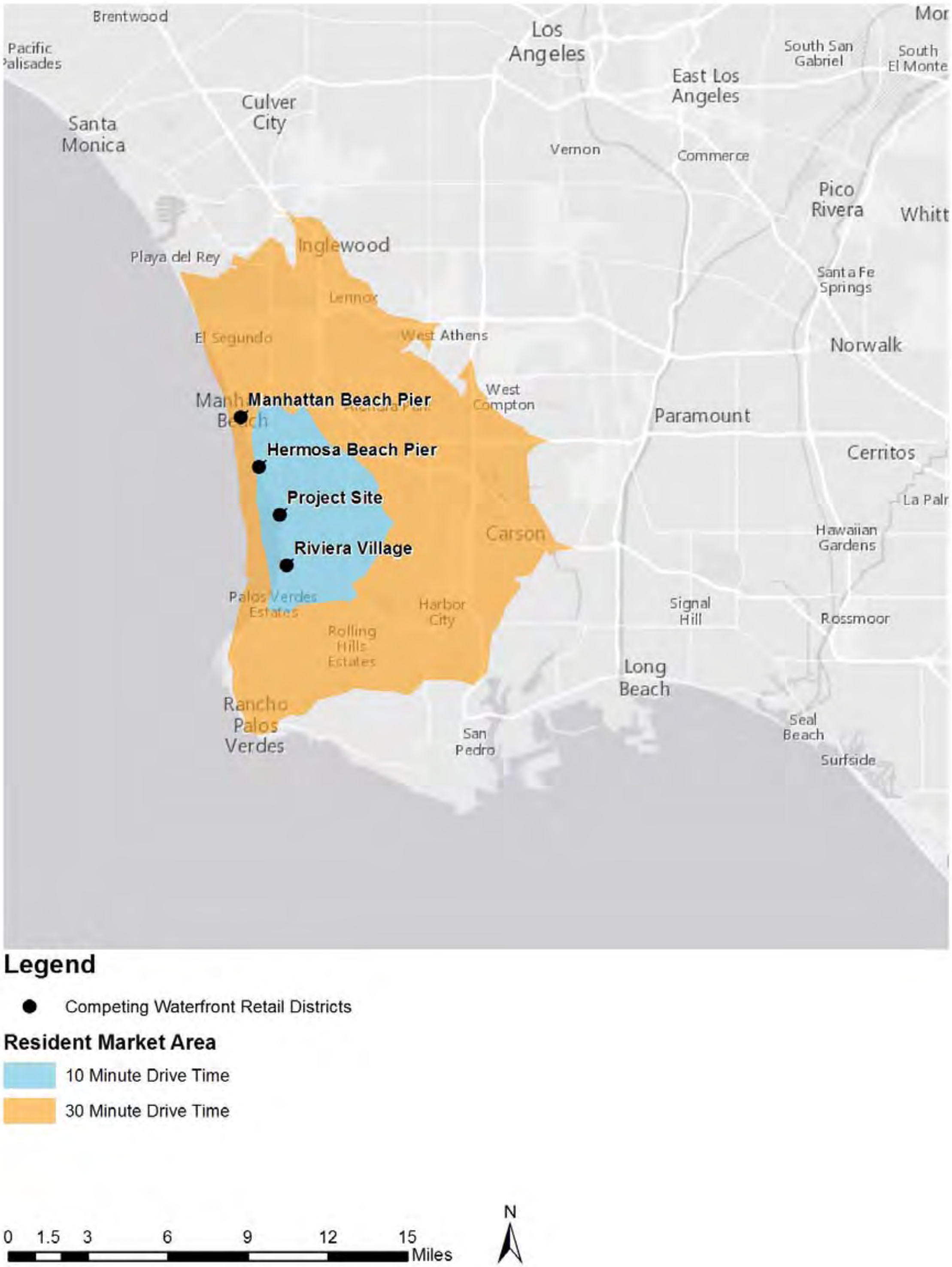
MARKET REVIEW

COMPETITIVE PROPERTIES

There is a high level of competition in the retail market in the South Bay. The proposed Project is positioned to compete with existing and proposed RDE/Lifestyle development and indirectly with other more traditional shopping center environments. The following maps provide an overview of waterfront retail districts (non-shopping center) and large shopping centers that will compete for business in the market. Some of the shopping centers below have characteristics consistent with RDE development. To further complicate defining the existing shopping centers, both Del Amo Mall and Manhattan Village are repositioning themselves as a more lifestyle destination that will add to the competitive landscape.[4] Given that a key characteristic of successful RDE development is a mix of smaller retailers without a traditional retail anchor, the repositioning of existing regional malls or power centers still represent a different, albeit more similar, retail experience. Based on the tenant mix, many of the best performing RDE centers have a high proportion of the retail space dedicated to F&B with more moderate levels of retail. Unlike regional shopping centers that rely on department store anchors, RDE shopping environments rely on a mix of activities and experiences to drive business to the center.   While this analysis focuses on key competitive districts and shopping centers, there are a number of neighborhood shopping centers as well as other retail that will indirectly compete with the proposed Project.

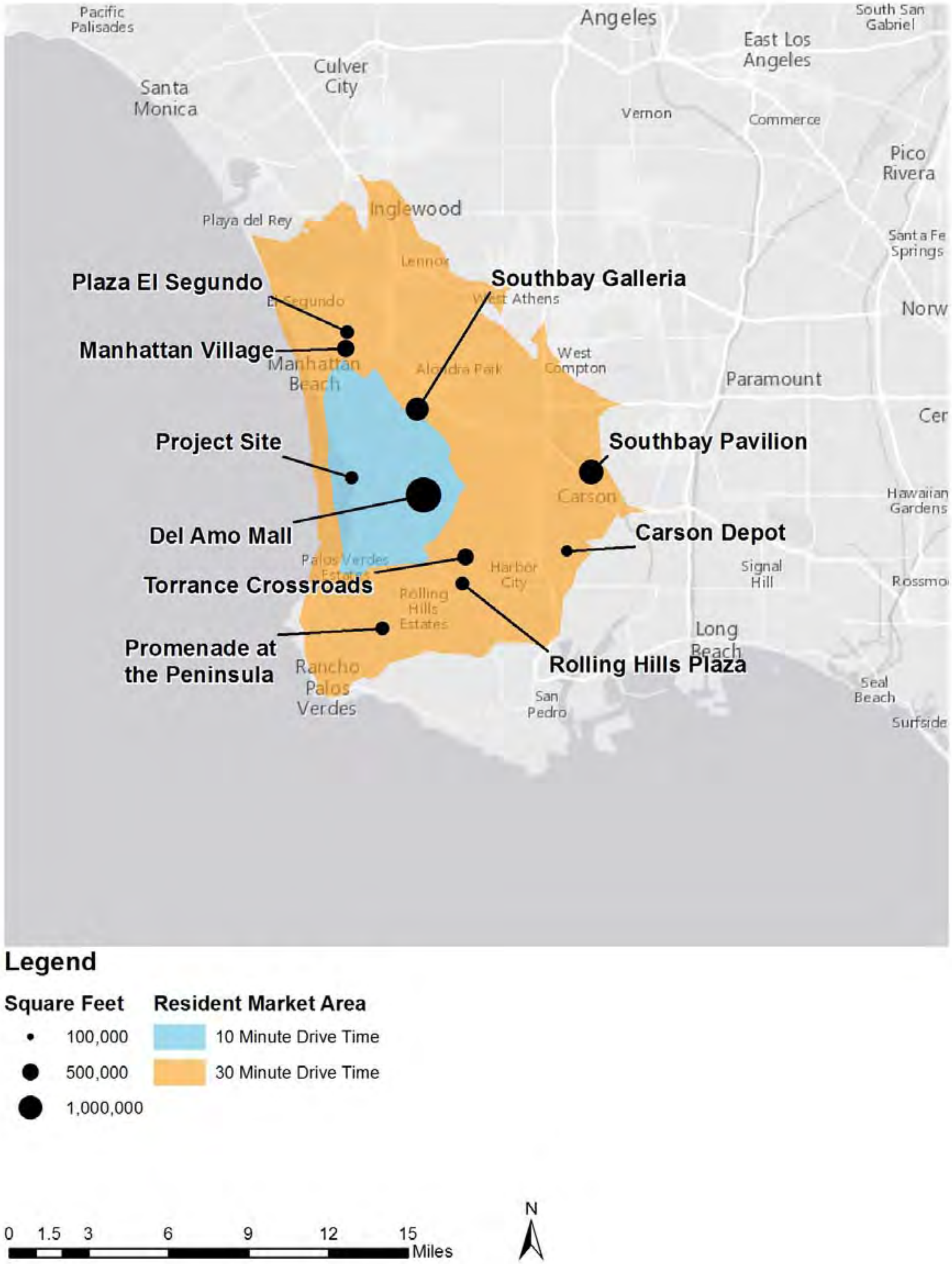
[4] Planning is underway to reposition the South Bay Galleria, which may also become an indirect competitor to the proposed Project.

Figure 13 – Map of Waterfront Retail Districts



Source: ESRI Business Analyst; AECOM

Figure 14 – Map of Competitive Large Format Shopping Center Retail (Malls and Power Center)



Source: ESRI Business Analyst; CoStar; AECOM

WATERFRONT RETAIL DISTRICTS

The existing waterfront entertainment and retail districts (Hermosa Beach Pier, Manhattan Beach Pier, and Riviera Village) will likely appeal to a similar consumer.

Hermosa Beach Pier

The Hermosa Beach Pier is located approximately 2 miles to the north of the proposed Project in Hermosa Beach. Pier Avenue includes a larger number of local shops and restaurants that cater to beach and pier visitors as well as function as the city's "main street." The Hermosa Beach Pier is located within the proposed Project's anticipated primary market area.

Manhattan Beach Pier

Similar to Hermosa Beach Pier, the Manhattan Beach Pier includes various shopping, entertainment, and restaurants in Manhattan Beach. The businesses are clustered along the major north south avenues and along Manhattan Beach Boulevard. The Manhattan Beach Pier is located approximately 4 miles to the north of the proposed Project and is at the edge of the primary market area of the proposed Project.

Riviera Village

Riviera Village is located approximately 2.5 miles south of the proposed Project in southern Redondo Beach. The area includes a cluster of local restaurants and shops, with a high number of personal services that cater to cliental located in Palos Verdes. The Village includes a Trader Joe's and is also supported by a relatively large number of employees. Unlike, the Hermosa Beach and Manhattan Beach Piers, Riviera Village functions more like a small downtown center and is not adjacent to the beach.

REGIONAL SHOPPING CENTERS

As noted, the future repositioning of Del Amo Mall, Manhattan Village, as well as ongoing operations at Plaza El Segundo, South Bay Galleria, and The Promenade at the Peninsula represent the larger sized regional competitive shopping centers. These regional malls and power centers will all indirectly compete with the proposed Project. The two regional shopping centers located within the primary market area include Del Amo Mall and the South Bay Galleria.

Del Amo Fashion Center

Del Amo Fashion Center is located approximately 2.5 miles east of the proposed Project site and includes over 2 million square feet of retail space. The mall is anchored by Macy's and the relocated Nordstrom from the South Bay Galleria. In connection with Nordstrom relocation the mall is undergoing a renovation to help reposition it as a lifestyle destination. Del Amo Fashion Center also includes an AMC Cinema and is one of the largest shopping centers in the region.

South Bay Galleria

The South Bay Galleria is located approximately 3 miles northeast of the proposed Project. The center includes approximately 1 million square feet of retail space anchored by Macy's, Target, TJ Maxx, Kohl's, and an AMC Cinema. Planning is underway to reposition the mall given the relocation of Nordstrom to Del Amo Fashion Center.

COMPETITIVE RETAIL DINING ENTERTAINMENT DEVELOPMENTS

The following two projects, under development, represent the most direct competitive shopping center development for the proposed Project.

Runway

Runway, a 200,000 square foot RDE located in Playa Vista, is intended to serve as a mixed-use commercial and social hub for the community. The center includes an office component (35,000 square feet) and approximately 400 for-rent residential units. With a focus on an eclectic mix of national, regional, and local tenants, the development intends to integrate a unique blend of experiences from organic grocer, to cinema, to celebrity chef-driven restaurants and gastro pubs, to boutique shopping. The development also includes public open space, water features, and outdoor fireplaces. The proposed Project's cost is estimated to be $260 million and is targeted to open in 2015. The center is reported to be nearly fully leased (or in negotiations). An illustrative list of tenants is provided below.

Figure 15 – Runway Tenant List (partial)

Tenant Name	
Whole Foods	Lyfe Kitchen
Cinemark Theatres	Hopdoddy Burger Bar
CVS	Sol Cocina
800 Degrees	Panini Café
Urban Plates	Varnish Lab
Chase Bank	The Studio MDR
Starbucks	N'ice Cream
18/8 Fine Men's Salons	Gap (Under Negotiation)
Wells Fargo	Yogaworks (Under Negotiation)
ROC Kitchen	

Source: CBRE

The Point

The Point, an 115,000 square foot RDE in El Segundo, is located at Rosecrans Avenue and Sepulveda Boulevard. The Point offers a new shopping and dining as well as an open space component designed as a place where the community to gather. Restaurants will offer el fresco café dining and the development is located across from the existing Plaza El Segundo. The proposed Project's cost is estimated to be $80 million and it is slated to open in June 2015. The center is reportedly fully leased. An illustrative list of tenants is provided below.

Figure 16 – The Point Tenants

Tenant Name	
Peet's Coffee & Tea	No Rest for Bridget (NRFB)
Vicara Salon Spa	Athleta
SoulCycle	Hopdoddy Burger Bar
Mendocino Farms Sandwich Mkt	Lucky Brand
North	ShopHouse
True Food Kitchen	Michael Stars

Source: Federal Realty

RDE BENCHMARK ANALYSIS

As noted, RDE projects are destination developments that offer a unique environment and retail/dining experience that is not located in the market. As a result, these centers tend to import spending from the region. This occurs because the developments are attractive not only to local residents, but also to visitors and individuals located outside the primary market area. To illustrate the order-of-magnitude level of imported sales, a number of RDE projects in the region were evaluated.

First, local demand is estimated by examining F&B spending potential within the primary market area (10-minute drive time). Reported sales estimates at businesses identified as Food & Drinking Places (NAICS 722) were gathered within the same trade area. Finally, sales in the primary market area were compared to estimated demand.

On average, the benchmark developments import nearly 70 percent more F&B sales than supported by primary market area demand. In other words, the successful delivery of the proposed Project is anticipated to create an additional level of F&B sales comparable with the existing benchmark RDE development. Given the variety of RDE development, the proposed Project would not be expected to exceed the benchmark ratios. To be conservative, a lower ratio (1.50) than the average (1.67) has been used to estimate development potential. A summary is presented below.

Figure 17 – RDE Benchmark for Additional F&B Sales

RDE	Demand	Sales	Ratio
The Pike/Shoreline Village	$209,669,563	$279,699,028	1.33
LA Live!	$338,722,655	$726,182,668	2.14
The Grove	$445,331,345	$675,854,843	1.52
The Americana at Brand	$237,143,798	$428,428,240	1.81
Universal Citywalk	$232,361,608	$277,395,465	1.19
Downtown Disney	$421,977,948	$842,057,417	2.00
Average			1.67

Source: ESRI Business Analyst

Figure 18 – Redondo Beach Pier RDE Benchmark for Additional F&B Sales

	Demand (Millions)	Sales (Millions)	Ratio
Current Redondo Pier Performance (2014)	$239.35	$257.07	1.07
Future Redondo Pier RDE Performance Benchmark	$239.35	$359.02	1.50
Market Potential (RDE benchmark less current)		$101.95	

Source: ESRI Business Analyst; AECOM

A brief profile of the selected RDE projects is provided to better understand their sizing and allocation of F&B, retail, and entertainment offerings. The proposed Project is similar in size with a greater emphasis on delivering F&B. The Market Hall concept and waterfront location will be key points of distinction from existing RDE development. The following map presents the location of the RDE/Lifestyle developments along with a 10-minute drive time market shed. The 10-minute market area is provided to examine market saturation. There appears to be an opportunity for the proposed Project to fill a potential gap in the market for RDE offerings in the South Bay.

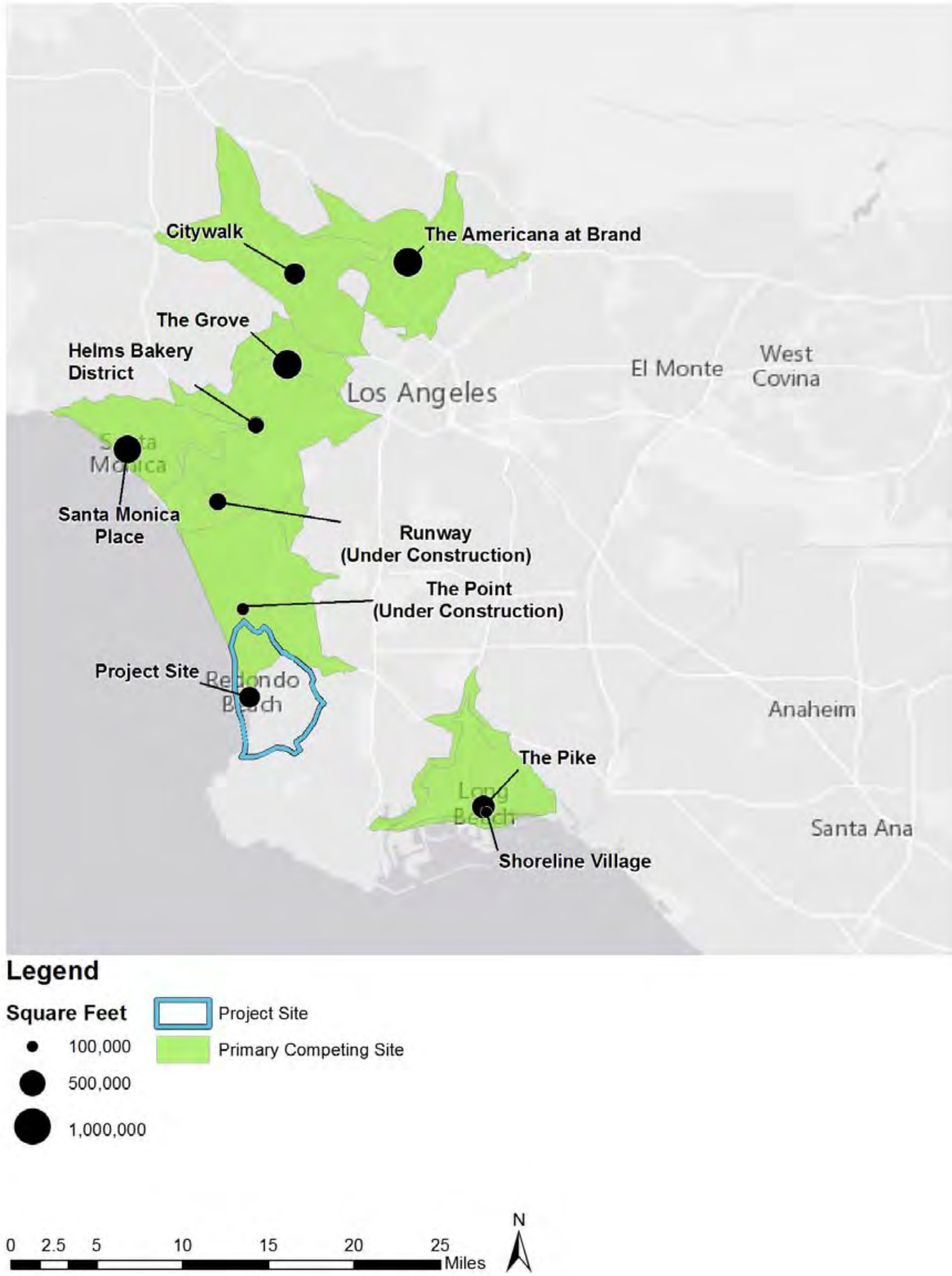
Figure 19 – Summary of Benchmark RDE/Lifestyle Shopping Centers

RDE/Lifestyle	Total (SF)	Anchors	F&B	Retail	Entertainment
Proposed	***305,000***	***Theater, Waterfront***	***48%***	***38%***	***13%***
The Pike	369,000	Aquarium of the Pacific, Cinemark Theaters	32%	10%	58%
Shoreline Village	100,000	Aquarium of the Pacific, Waterfront	60%	40%	0%
LA Live!	305,000	Staples Center, Nokia Theater, Regal Cinemas	28%	0%	72%
The Grove	600,000	Pacific Theaters, Trolley Car, Fountain, Farmers Market	14%	70%	16%
The Americana at Brand	600,000	Pacific Theaters, Trolley Car, Fountain	14%	70%	17%
Universal Citywalk	316,000	Universal Studios, AMC Theater	44%	20%	36%
Downtown Disney	230,000	Disneyland, California Adventure, AMC Cinema	46%	29%	25%
Average[1]	**370,000**		**35%**	**46%**	**19%**

1 Average does not include The Pike and LA Live

Source: Individual facilities; AECOM

Figure 20 – Map of Benchmark RDE/Lifestyle Shopping Centers



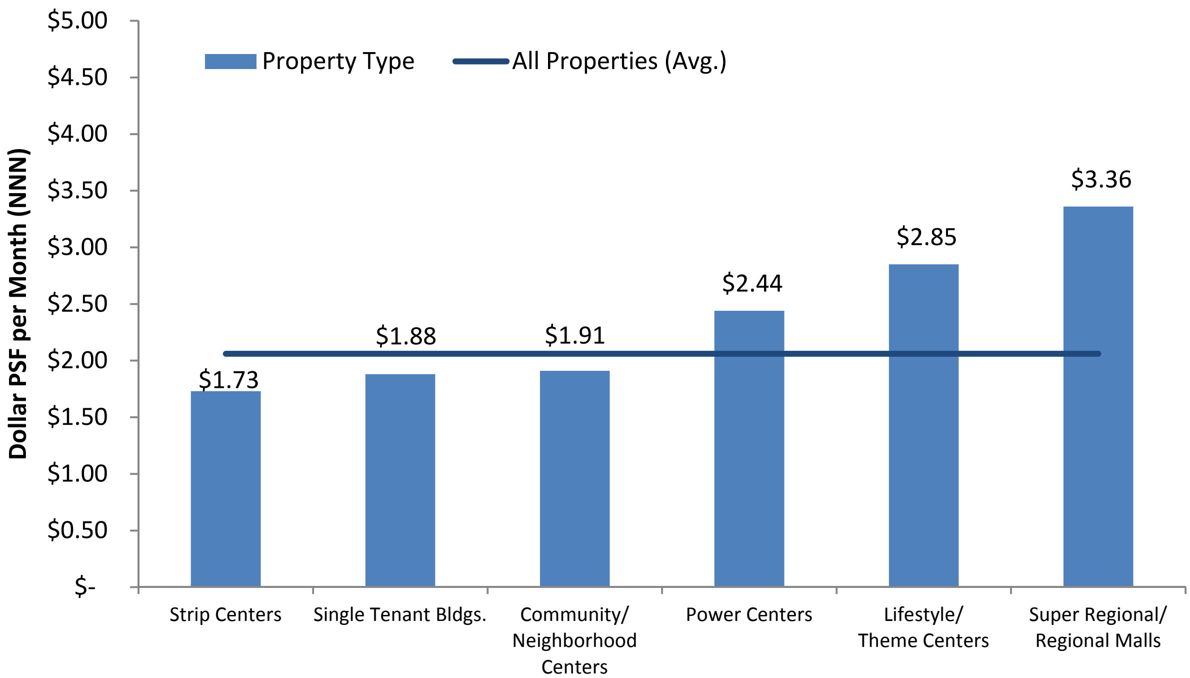
Source: ESRI Business Analyst; AECOM

RETAIL FUNDAMENTALS

RENT ANALYSIS

Due to Del Amo Mall and the South Bay Galleria, the South Bay retail submarket has one of the largest inventories in the greater Los Angeles retail market. Current average asking rent in the South Bay is approximately 14 percent higher than the larger Los Angeles retail market. The area also has lower vacancy rates. To illustrate the rent potential at the proposed Project, the premium for lifestyle/theme centers or RDE and malls in the market was examined. According to Colliers, these developments can attract rents 40 to 60 percent above market value. RDE/Lifestyle centers have become increasing attractive to retailers because they often have rents lower than malls but yield comparable sales productivity at a lower cost (rent) basis.

Figure 21 – Rent Comparison by Development Type (Los Angeles Basis)



Source: Colliers

Quoted rents for competitive development and development located within the primary market area were also researched. The survey of developments was limited due to occupancy levels and properties where leases were under negotiation. Current retail rates for the City of Redondo Beach (all properties) are approximately $2.50 per month (triple net[5]). The illustrative quoted monthly rents (NNN) from CoStar include:

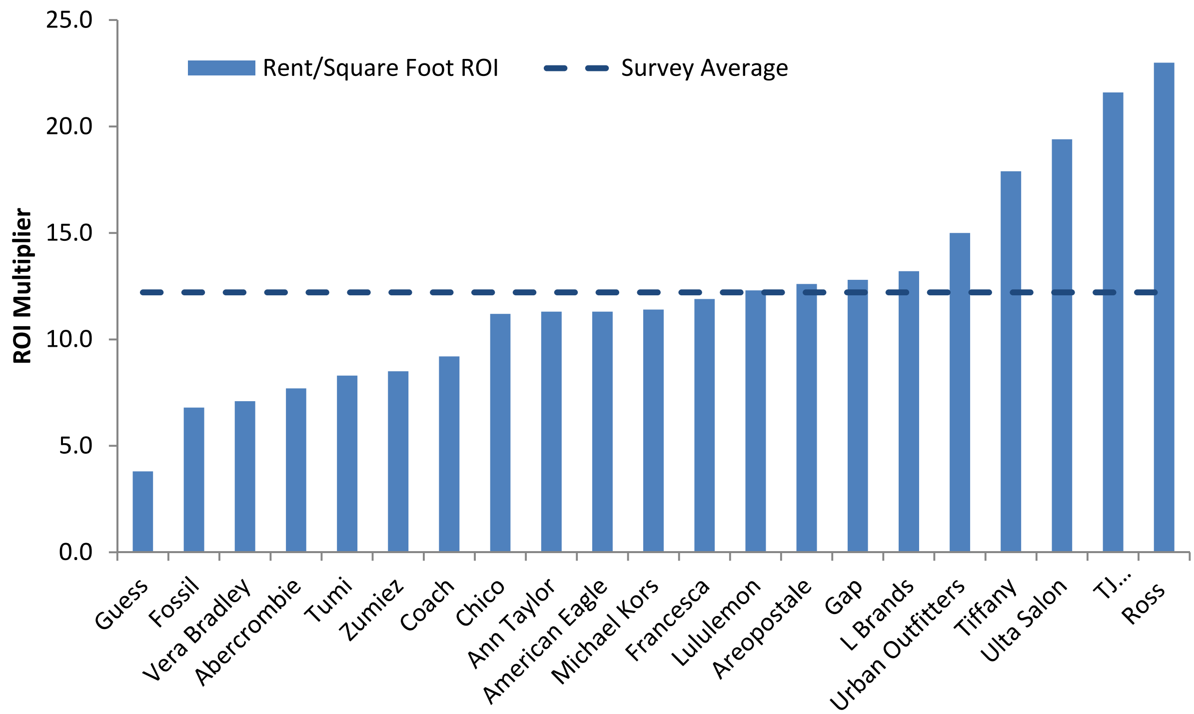
- Del Amo Mall (Super Regional Mall) ~$7.00 – $10.00
- Runway (RDE/Lifestyle) ~$5.00 – $6.00
- Hermosa/Redondo Pier (Waterfront Retail Districts) ~$2.00 – $4.00

[5] Triple Net (NNN): A lease in which the tenant is responsible for all expenses associated with their proportional share of occupancy of the building.

SALES ANALYSIS

Since the level of sales will vary from center to center based on the success of the development and the unique retail mix, a recent survey regarding the ratio of rent to sales on a per square foot basis was used to assist determining a reasonable level of sales for the proposed Project. This information was used in conjunction with other reported information regarding sales performance for comparable RDE centers. The figure below includes information collected from Jefferies regarding specialty stores and discount retailers returns on investment as it relates to what they earn in sales per square foot, compared to what they pay in rent per square foot. In other words, it provides a "productivity" indicator for retail companies. Across all companies surveyed, the return on investment (ROI) multiplier was approximately 12. As a rule of thumb, a typical retail indictor is often used to estimate the amount of rent a retailer can afford relative to sales. Such indicators were considered when developing sales targets for the proposed Project.

Figure 22 – ROI Survey



Source: Jeffries; Individual Companies 10-K filings

SWOT ANALYSIS

The following summarizes the SWOT analysis for the site location as it relates to future RDE development.

Strengths:

- Relatively dense and high income population within primary market area.
- Proven developer with portfolio of successful retail developments.

Weaknesses:

- Low vehicle visibility.
- Limited market area due to waterfront location.
- No freeway access.

Opportunities:

- The proposed Project site has the potential to serve tourists.
- Fill void in RDE development in the South Bay.
- Leverage waterfront location to provide a unique RDE development.

Threats:

- Competition in market. There is a large, albeit not directly competitive, supply of retail in the market area. Ongoing repositioning and redevelopment of older properties into a more lifestyle/RDE type of program represents potential future competition in the market.

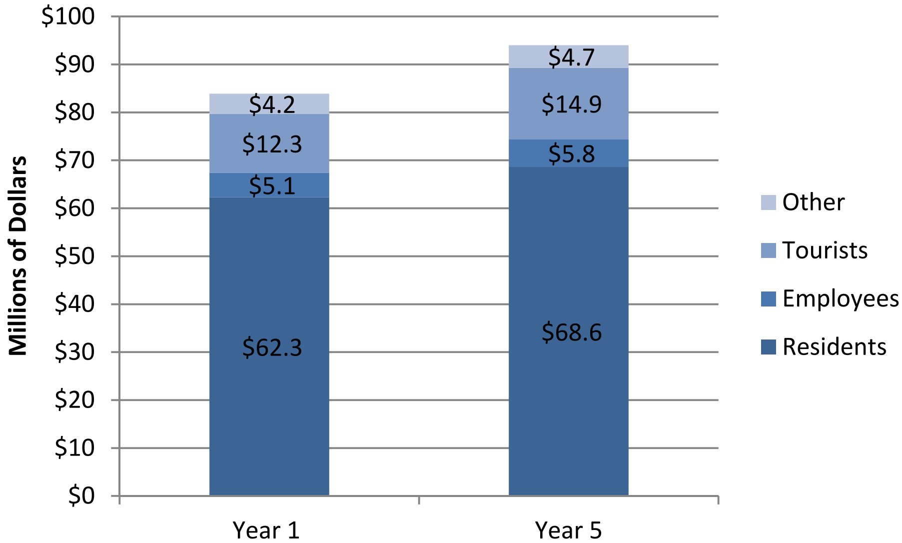
DEMAND

A variety of anticipated capture rates have been assumed based on the proposed Project and the competition in the existing market as well as the competitive pipeline. Detailed demand tables are provided in the **Appendix** of this report. Total retail demand is projected for the next five years. The following summarize demand estimates for F&B sales. F&B demand was called out because this is anticipated to be a major draw for the development and because information was collected based on the ratio of imported F&B sales at benchmark RDE developments. The following describes the methodology to estimate anticipated Project demand:

- Seven market bands were analyzed to determine a base level of project F&B demand in a current illustrative Year 1. These include:
  - Resident
    1. Primary (0 – 10 Minutes) with 8.0 percent capture
    2. Secondary (10 – 30 Minutes) with 6.0 percent capture
  - Employee
    3. Primary (0 – 5 Minutes) with 9.0 percent capture
    4. Secondary (5 – 10 Minutes) with 7.0 percent capture
  - Tourist
    5. Primary (City of Redondo Beach) with 9.0 percent capture
    6. Secondary (South Bay Hotel Market) with 4.0 percent capture
  - Tertiary
    7. This market is not encompassed in our capture estimates, but is anticipated to make up 5.0 percent of total sales (e.g. outside primary and secondary market sheds).
- All capture rates were increased by a half percent to reflect project at Year 5 stabilization.
- AECOM examined spending patterns using the following key data sources:
  - Resident
    - Household income estimates from ESRI Business Analyst
    - Disposable income after taxes for spending on “Food Away from Home and Alcoholic Beverages” from the latest Consumer Expenditure Survey published by the Bureau of Labor Statistics.
  - Employee
    - Employees estimated based on the number of individuals employed, but do not live in the market.
    - Spending estimate based on the International Council of Shopping Centers employee spending survey for “Restaurant and Fast Food” related spending.
  - Tourist
    - Level of overnight visitors estimated based on hotel room supply, occupancy, and visitor travel characteristics (e.g. length of stay, persons per party).
    - Spending estimated based on Visit Los Angeles survey for overnight visitor spending on “Food and Beverage – Eating Out” category.
  - Tertiary
    - This market is not encompassed in our capture estimates, but is anticipated to make up 5.0 percent of total sales (e.g. outside primary and secondary market sheds).

The following figure presents a summary of the demand findings in hypothetical Year 5. This is compared with the previously established order-of-magnitude level of anticipated imported sales. The comparison is drawn to evaluate anticipated market demand and sales potential based on RDE benchmark properties.

Figure 23 – F&B Market Demand Summary

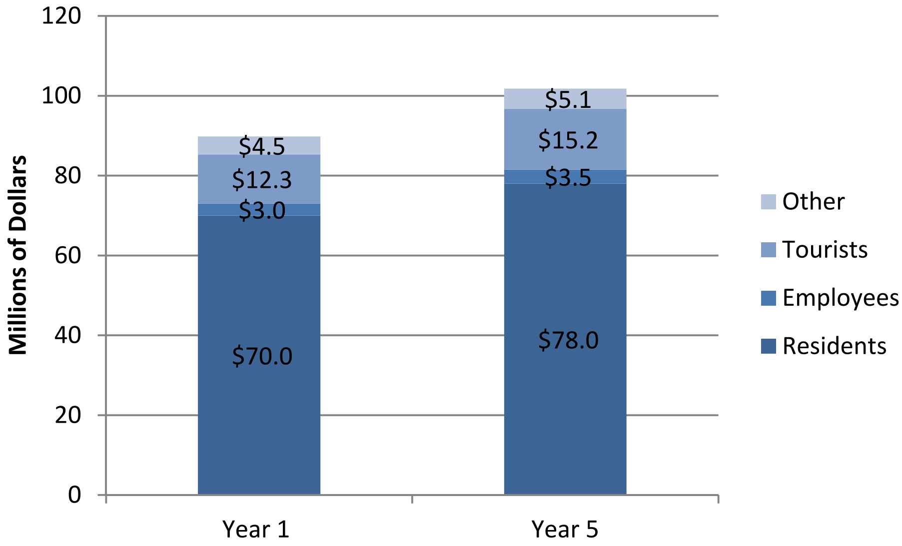


Source: ESRI Business Analyst ; AECOM

Based on the assumption that diverse F&B (Market Hall and waterfront restaurants) will drive the proposed Project, the additional demand for the retail and entertainment components of the development was estimated. Again, detailed tables are provided in the **Appendix**. General assumptions include:

- The same seven market bands were analyzed to determine a base level of projected retail and entertainment demand in Year 1 and Year 5.
- All capture rates were decreased by a half percent to reflect more diversity in spending associated with entertainment and specialty retail.
- AECOM examined spending patterns using the following key data sources:
  - Resident
    - Disposable income after taxes for spending on “Apparel and Entertainment” from the latest Consumer Expenditure Survey published by the Bureau of Labor Statistics as proxy for spending potential.
  - Employee
    - Spending estimate based on the International Council of Shopping Centers employee spending survey for “Entertainment and Apparel” related spending as proxy for spending potential.
  - Tourist
    - Spending estimated based on Visit Los Angeles survey for overnight visitor spending on “Entertainment and Shopping” category as proxy for spending potential.

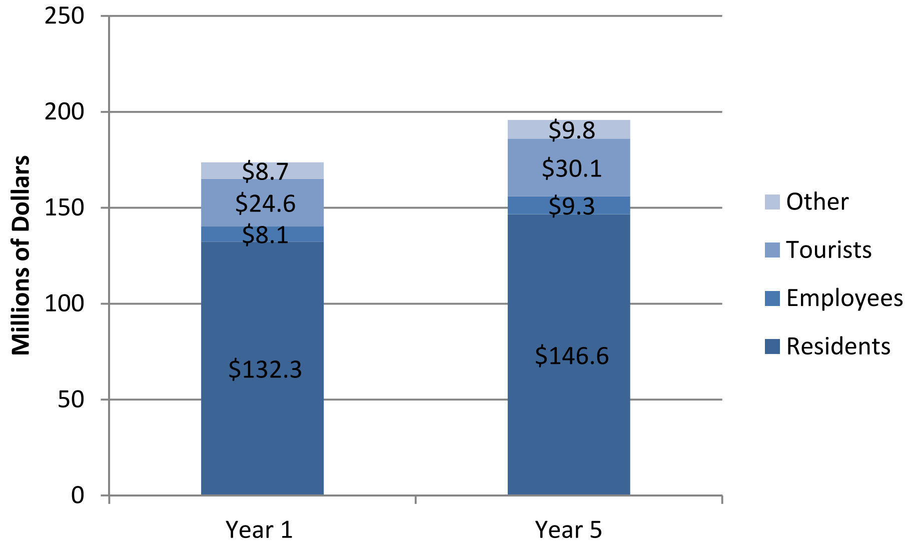
Figure 24 – Retail/Entertainment Market Demand Summary

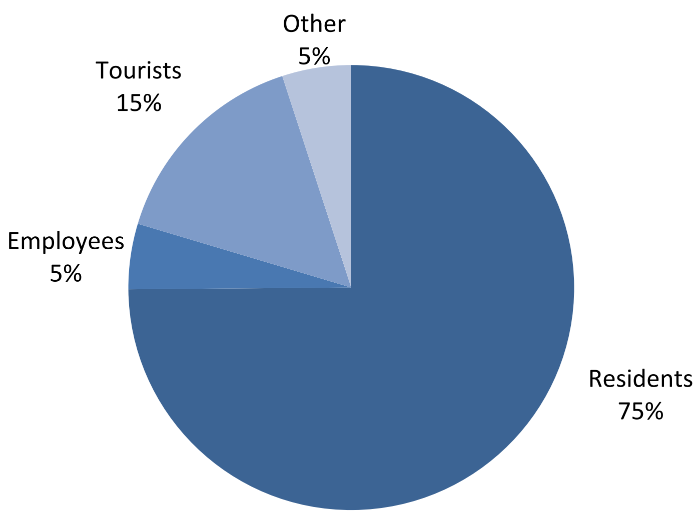


Source: ESRI Business Analyst; AECOM

The following figure presents the total summary of the demand findings for retail, F&B, and entertainment in hypothetical Year 5. The figure includes a pie chart with the estimated allocation of demand by market segment.

Figure 25 – RDE Market Demand Summary





Source: ESRI Business Analyst ; AECOM

SALES PERFORMANCE ANALYSIS

Based on the level of demand, rent survey, and historic performance of comparable RDE properties, the implied sales for the proposed Project have been estimated. The **Appendix** includes a detailed table with the calculation by RDE component. The target sale productivity findings can be summarized below based on Project stabilization during a hypothetical Year 5:

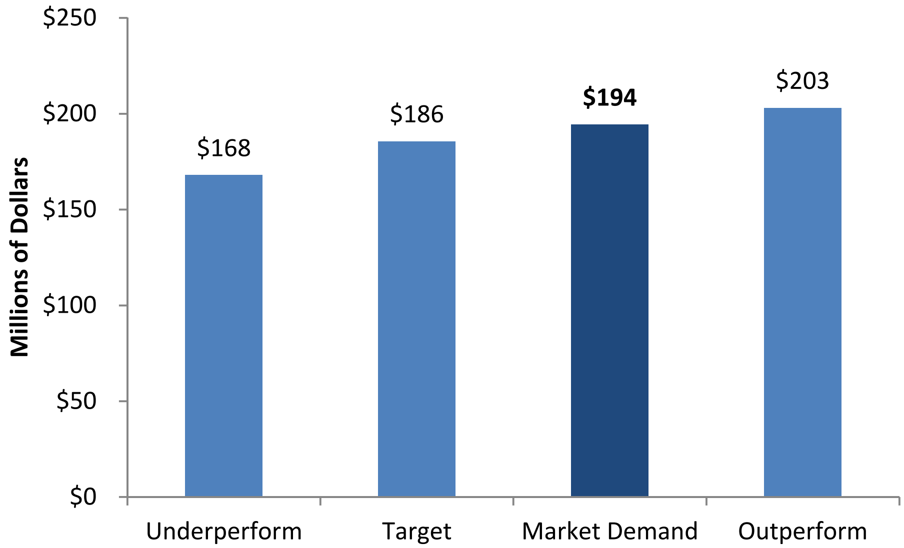
- Market Hall[6] ~$1,000 per Square Foot
- General F&B ~$850 per Square Foot
- Retail ~$750 per Square Foot

[6] Includes a mix of specialty retail and F&B space.

- Entertainment ~$320 per Square Foot

The following figure presents estimates for the RDE based on three scenarios of Project performance. Based on estimated demand of approximately $196 million in sales, the midpoint between the target and outperform scenarios appears reasonable as an estimate of the sales potential at the proposed project.

Figure 26 – RDE Sales Performance Summary (Year 5)



Source: ESRI Business Analyst ; AECOM

Based on this market demand estimate, the following is a summary of the blended sales per square foot estimates by Project component:

- F&B ~$900 per Square Foot
- Retail ~$800 per Square Foot
- Entertainment ~$325 per Square Foot
- Total ~$780 per Square Foot

In comparison to the previous benchmark, the proposed Project would have a ROI multiplier of 13, which is slightly above the survey average of 12.

ENTERTAINMENT COMPONENT

The proposed Project includes a specialty or luxury cinema as the entertainment component of the RDE. While the market appears to have a significant number of traditional cinemas and limited market demand, the proposed specialty theater would be unique as it would offer fewer screens, a higher quality viewing environment, and full-service dining. Examples of this emerging theater experience include offerings by Cinépolis and iPic. These companies have a limited number of operations in Southern California.

Based on conversations with market experts, Southern California is one of a few regions where this type of specialty theater product is currently being deployed. The specialty cinemas target affluent and older movie going demographic and to some degree families. The higher price point compared to traditional theaters indicates the market area is wider yet the capture rate is lower. While the demand associated with this product type has not been specifically analyzed, given the anticipated capture of entertainment spending and market demographics the proposed concept appears to be marketable as a component of the proposed Project.

Figure 27 – Specialty/Luxury Cinema Map

Source: Individual facilities, AECOM

Section 4: Hotel Analysis

The following section outlines the market potential for the proposed hotel at the proposed Project. The analysis includes a survey of competitive properties, an analysis of market fundamentals, and demand estimates.

CONTEXT

The proposed hotel will operate within the context of the South Bay tourist submarket. An overview of the local trends and competitive properties within the submarket that will affect demand and financial performance at the proposed Project Site is presented below.

MARKET COMPARISON

South Bay Market Overview

In the South Bay hotel market, 48 percent of hotel properties are considered upper-priced, while 52 percent are considered lower-priced.[7] As of the third quarter 2014, the average daily rate (ADR) in the South Bay market was $122 with occupancies over 80 percent. ADR at upper-priced hotel properties in the last reported quarter were $156 with average occupancy of 84.4 percent. Lower-priced hotel properties posted an ADR of $89 and average occupancy of 80.7 percent.

Redondo Beach Market Overview

Redondo Beach is attractive to many visitors because of its character and location. Located near LAX, Redondo Beach offers visitors a relaxed atmosphere with beach access and plentiful retail offerings. Visitor amenities include the waterfront, as well as water sports, outdoor activities, dining, shopping, and nightlife. Although Redondo Beach receives occasional overflow from downtown during large conventions or other large scale regional event, most hotels do not regularly attract large groups of business-related visitors based on the limited amount of convention and meeting space. Similar to other locations in the region, peak overnight travel occurs in the summer months with a lull in the winter months.

Smith Travel Research (STR), an independent source of hotel market data, estimates that Redondo Beach has 1,383 rooms spread among between 14 hotel and hotel/motel options. In comparison to the hotels in the surrounding cities of Manhattan Beach and Hermosa Beach, the room supply in Redondo Beach is the largest among the beach cities. Approximately 67 percent of the hotels are represented in the upper-priced market segment. This is higher than the larger South Bay submarket where approximately 48 percent of the properties

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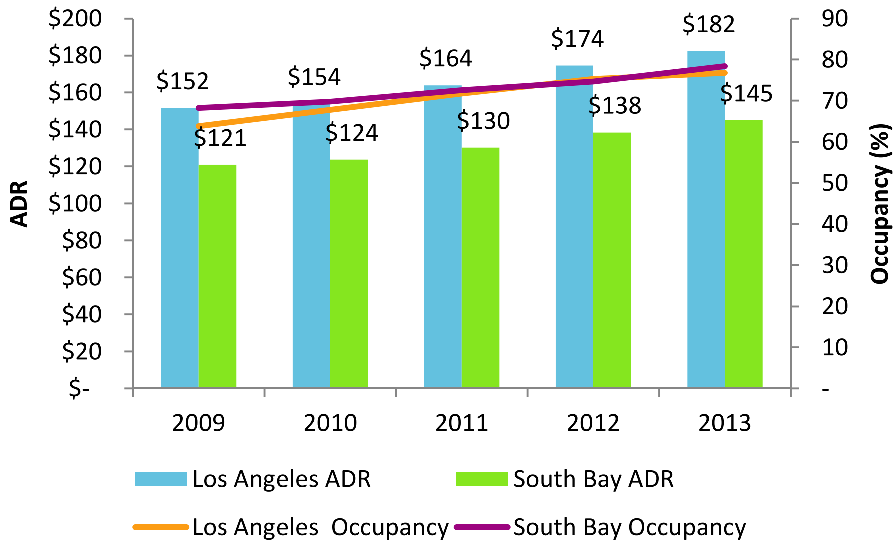
[7] Upper priced hotels refer to hotel brands generally offering food and beverage as well as other amenities associated with full-service hotels. Illustrative national brands include Hilton, Marriot, Westin, and Radisson hotels. This would compare with lower priced hotels, that typically do not offer full-service, which include such representative brands as Days Inn, Holiday Inn, Comfort Inn, and Best Western hotels.

are classified as upper-priced. In total, Redondo Beach provides approximately 16 percent of the upper-priced room supply in the South Bay submarket area.

The figure below presents a comparison of ADR and occupancy at the local and regional visitor market areas for upper-priced hotel properties, which would likely be most comparable to future hotel development at the proposed Project. Over the last five years, the ADR upper-priced hotels in the South Bay have been approximately 20 percent lower than the larger Los Angeles market. During the same time, occupancy rates in the South Bay have been generally higher than the larger tourism market area (the exception being in 2012).

Figure 28 – Market Comparison (2009 – 2013)



Source: STR; AECOM

BOUTIQUE HOTEL OVERVIEW

While there is no specific definition for boutique hotels, they are generally smaller properties (in terms of total rooms) that offer unique, contemporary, and distinctive design or decor. STR reports that hotels in this category often create and promote a stylish, luxurious, aspirational, or avant-garde ambiance for hotel guests. Many boutique hotels also include a signature restaurant or bar. Hotels in the boutique segment are typically concentrated in the luxury, upper-upscale, and upscale chain and class categories, which distinguishes them from similarly sized budget hotels, have an actual or estimated room rate double the nationwide average and typically have fewer than 150 rooms.

Figure 29 – Illustrative Boutique Hotels in Los Angeles Market

Operator	Location
Ace Hotel Group	Downtown Los Angeles
aloft	El Segundo (2015)
Andaz	West Hollywood
Dream	Hollywood (In Development)
Edition	West Hollywood (In Development)
Epoque Hotels	Multiple Locations
Joie De Vivre	Los Angeles
Kimpton Hotels	Los Angeles
Morgans Hotel Group	West Hollywood
Viceroy Hotels & Resorts	Santa Monica
W Hotels	Multiple Locations

Source: STR; AECOM

Visitors choose boutique hotels because of the experience they provide. For a higher cost, visitors gain the experience of staying in a unique hotel. The visitors who are attracted to boutique hotels are not typically looking to reserve a large number of rooms. Boutique properties typically attract younger, wealthier individuals than their local competitive market. Many businesses would rather not spend the extra money on boutique hotels when group discounts are available at larger chain hotels. However, boutique hotels are still attractive to young professionals traveling for business or conducting small business meetings.

BENCHMARK PROPERTIES

A survey of local hotels was created in order to compare the general performance of select properties within Redondo Beach submarket relative to the larger submarket and market areas.[8] The hotels presented in Figure 30 were utilized to ascertain these historic hotel performance indicators. Some of the hotels listed below offer differing quality and scale to what is envisioned at the proposed Project. Lower quality hotels and motel properties were excluded as well as those independent hotels that do not report operating data to STR. The properties are categorized by “primary” and “secondary” competition. The sample size of the primary hotels was too low to pull data from STR based on their disclosure guidelines.

[8] Source: STR. STR has guidelines for attaining hotel data that include: Property Minimum: Competitive sets must include a minimum of three participating properties (defined as a property that has provided data for any one of the last 3 months). Percent Check: No single property or brand (e.g., Holiday Inn, Comfort Inn, etc.) can account for more than 40 percent of the total participating room supply of a competitive set. Company Check: No single company (e.g., Hilton, Starwood, etc.) can account for more than 60 percent of the total participating room supply of a competitive set. Company Minimum: Competitive sets must include a minimum of two companies.

Figure 30 – Reporting Property Overview

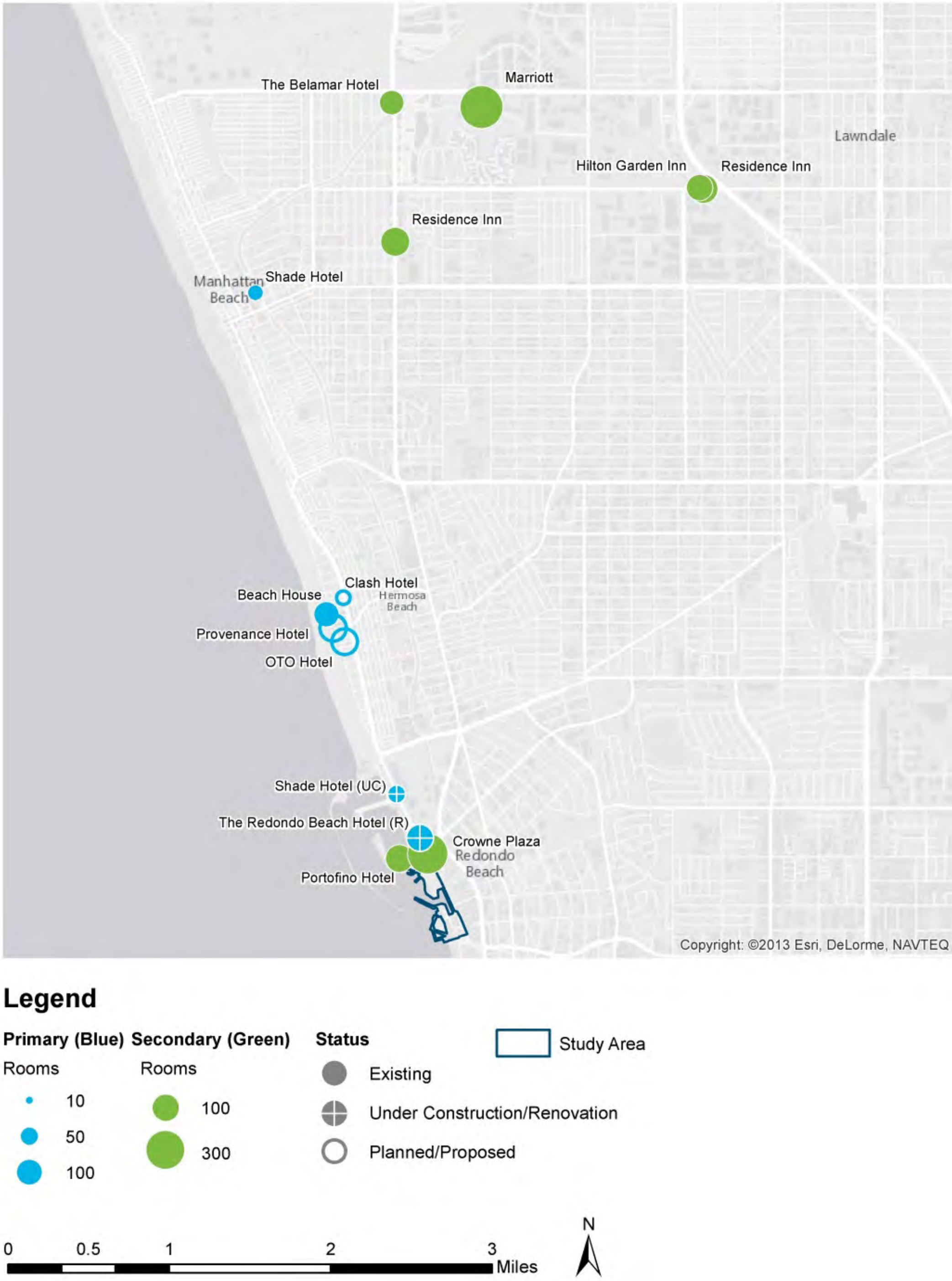
	Rooms	Class	Competition	City
Existing Hotels				
Shade Hotel	38	Upper Upscale	Primary	Manhattan Beach
Beach House	96	Luxury	Primary	Hermosa Beach
The Belamar Hotel	127	Upper Upscale	Secondary	Manhattan Beach
Hilton Garden Inn	147	Upscale	Secondary	Redondo Beach
Portofino Hotel	161	Upper Upscale	Secondary	Redondo Beach
Residence Inn	172	Upscale	Secondary	Redondo Beach
Residence Inn	176	Upscale	Secondary	Manhattan Beach
Crowne Plaza	342	Upscale	Secondary	Redondo Beach
Marriott	385	Upper Upscale	Secondary	Manhattan Beach
Terranea Resort	542	Luxury	Secondary	Palos Verdes
Under Construction/Renovation				
The Redondo Beach Hotel (R)	111	Upscale	Primary	Redondo Beach
Shade Hotel (UC)	54	Upper Upscale	Primary	Redondo Beach
Planned/Proposed				
Provenance Hotel	104	Upper Upscale	Primary	Hermosa Beach
Clash Hotel	30	Upscale	Primary	Hermosa Beach
OTO Hotel	100	Upper Upscale	Primary	Hermosa Beach
Homewood Suites	184	Upscale	Secondary	Redondo Beach
Hilton	202	Upscale	Secondary	Redondo Beach

Notes:
R = Renovation
UC = Under Construction
Source: STR; AECOM

Based on an assessment of the submarket area, two existing properties (Shade Hotel in Manhattan Beach and Beach House in Hermosa Beach) are directly comparable to the boutique hotel envisioned at the proposed Project. There are five additional properties (The Redondo Beach Hotel, Shade Hotel in Redondo Beach, Provenance Hotel, Clash Hotel, and OTO Hotel in Hermosa Beach) with over 670 additional rooms in various stages of development.[9]

[9] Total does not include renovation of The Redondo Beach Hotel as that product was previously in the market and considered part of the existing room supply in Redondo Beach and the larger South Bay hotel market area.

Figure 31 – Reporting Property Map



Source: Individual Facilities; AECOM

Shade Hotel (Manhattan Beach and Redondo Beach)

The Shade Hotel in Manhattan Beach includes 38 luxury guest rooms with 5 suites. The existing Shade Hotel is located approximately 3 blocks from the Manhattan Beach Pier and Ocean and approximately 5-miles from LAX. The surrounding area has numerous food and beverage offerings, including some of the most notable restaurants in the South Bay. The hotel features 24-hour room service, a lounge and bar, and rooftop sky deck with a bar and “relaxation” pool. There are a number of complimentary offerings that include Wi-Fi, “Beach Breakfast Buffet” and access to Equinox Fitness (located approximately 3 miles away). The property has received numerous awards and press coverage as one of the premier boutique properties in the South Bay market area. Current quoted pricing for the best available rate ranges from $350 to $400 per night for midweek to weekend rates, respectively.

Planned to open in 2015, the Shade Hotel in Redondo Beach will consist of 54 eco-friendly rooms, a rooftop pool, restaurant/bar, and a separate building that will have a lounge, event space, and a rooftop deck overlooking the water. The proposed Project is positioned to be one of the catalytic developments to revitalize the Redondo Beach waterfront. Unique design features of the property include bathtubs that are outside on decks (instead of in the bathroom) and every room having an ocean view. Other amenities include in-room cappuccino makers and many of the other in-room amenities included in the existing Shade Hotel in Manhattan Beach.

Beach House (Hermosa Beach)

The Beach House is a 96-room luxury hotel approximately 7 miles from LAX. The property is located on the beach (also referred to as The Strand) and near numerous dining, nightlife, and specialty shops on Pier Avenue. The hotel rooms are designed as luxury studios with approximately 80 percent of the rooms claiming ocean views. Amenities include complimentary breakfast, Wi-Fi, fireplaces, and the use of a fitness center and hot tub. Unlike the Shade Hotel, the Beach House has a more traditional aesthetic and is marketed as a “romantic getaway” or “corporate retreat.” Current quoted pricing for the best available rate ranges from $250 to $300 per night for midweek to weekend rates, respectively. Ocean front rooms range from $300 to $400 per night for midweek to weekend rates, respectively.

Redondo Beach Hotel (Redondo Beach)

The Redondo Beach Hotel is a $13 million renovation of the Sunrise Hotel. Pacifica Hotels is developing the hotel as an independent property that is scheduled to re-open in early 2015. The full renovation will include the addition of balconies on the ocean-facing guestrooms, a second level outdoor lounge with views of the ocean and marina, and remodeled lobby.

Provenance Hotel (Hermosa Beach)

Provenance Hotels, currently operating and developing hotels primarily in the Pacific Northwest, is developing a beachfront hotel on The Strand and Pier Avenue in Hermosa Beach. The Strand frontage is presently occupied by the Mermaid, the Deck, and Good Stuff restaurants. The Pier Plaza frontage now includes Pier Surf and the former Cantina Real restaurant, which is reopening as Killer Shrimp. The planned 110-room property will be designed as a three-story hotel with 15,000 square feet of restaurant space and a rooftop pool.

Clash Hotel (Hermosa Beach)

The City of Hermosa Beach is considering plans for proposed 30-room hotel near 15th Street and Hermosa Avenue in a currently vacant lot approximately a half mile from the Hermosa Beach Pier. There has been local opposition to the plans, but according to the latest news stories reported by the Daily Breeze earlier this year the city council seems to be pleased with the proposal. The Hermosa Beach city council has been advocating attracting additional quality hotels to town to increase visitor spending and the associated sales and transient occupancy tax.

OTO Hotel (Hermosa Beach)

An additional 100 room hotel is proposed for 11th Street in downtown Hermosa Beach. The proposed, block-long site is currently occupied by a two-story apartment house, with Burritos Brothers Mexican restaurant on the ground floor, an adjoining parking lot and several neighboring, single story office buildings. Similar to the other projects, the property would be marketed as a boutique hotel attractive to younger leisure and business travelers.

HOTEL FUNDAMENTALS

MARKET COMPARISON

The reporting properties and South Bay submarket have comparable occupancy levels, which were slightly higher than the larger Los Angeles hotel market as of 2013. As of the end of the 2013, the South Bay submarket was 1.6 percent above the Los Angeles area's occupancy rate of 76.8 percent while the reporting properties had the highest occupancy levels at 77.9 percent. Unlike the larger market areas, the occupancy rate at the reporting hotel set showed little growth between 2009 and 2011. However, between 2011 and 2013, these properties have grown faster than the other market areas.

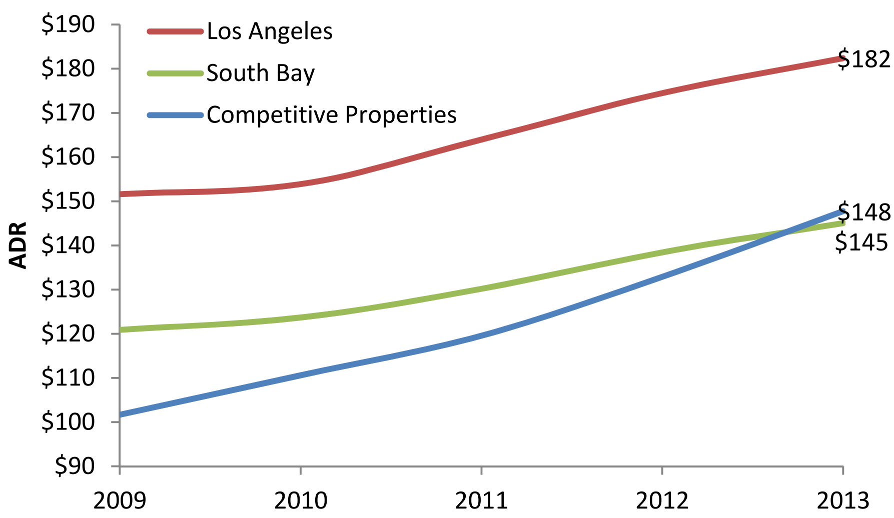
During the last 5 years of available year-end data, the ADR for hotels in South Bay submarket have been approximately 20 percent lower than the Los Angeles market area. The ADR at reporting properties has grown significantly since 2009 and now are higher than the larger South Bay submarket. Since 2009 there has been a constant increase in the ADR for the various markets with the competitive properties having almost twice the annual growth.

BENCHMARK PROPERTIES

Currently the reporting properties appear to be headed towards a 2014 ADR of nearly $170 with occupancy rates over 80 percent. Occupancy and ADR peak in the months of July and August and show relative consistency in ADR and occupancy with the notable exception being the winter months of November through January. For the reporting properties, peak rates are achieved on the weekend (Friday and Saturday night) and occupancy is highest during the weekend and peak business travel days (Tuesday through Thursday nights).

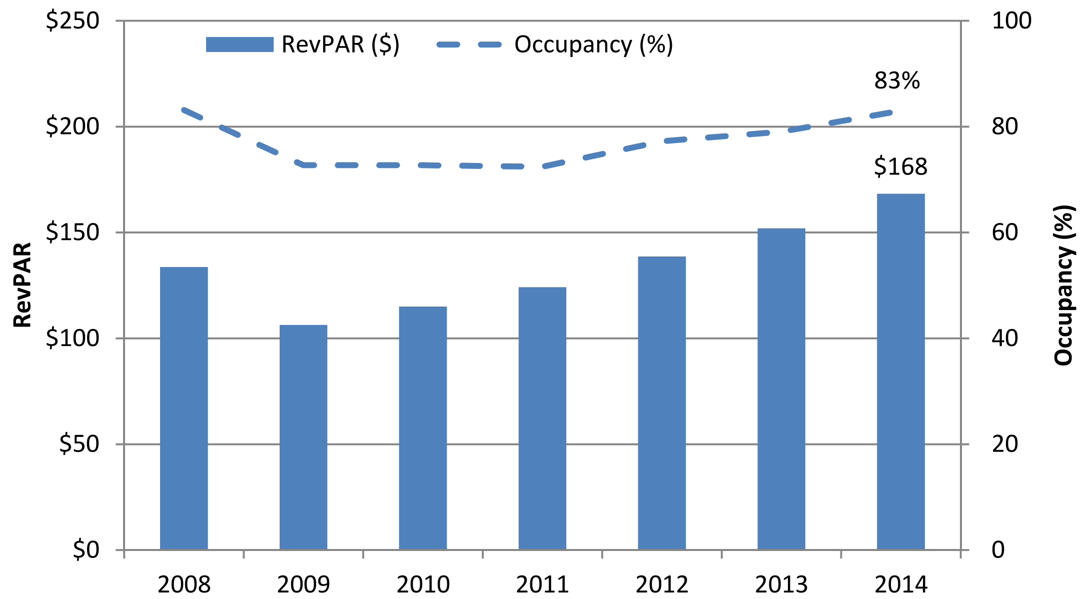
Market intelligence on waterfront hotels in Port districts was gathered to document the range of revenue per available room (RevPAR) and the ratio of room revenue to total revenue. The analysis determined that while there is a range of performance, higher quality hotels near or located on the water had RevPAR ranging from $150 to $200 per night.

Figure 32 – Hotel ADR Comparison (2009 – 2013)



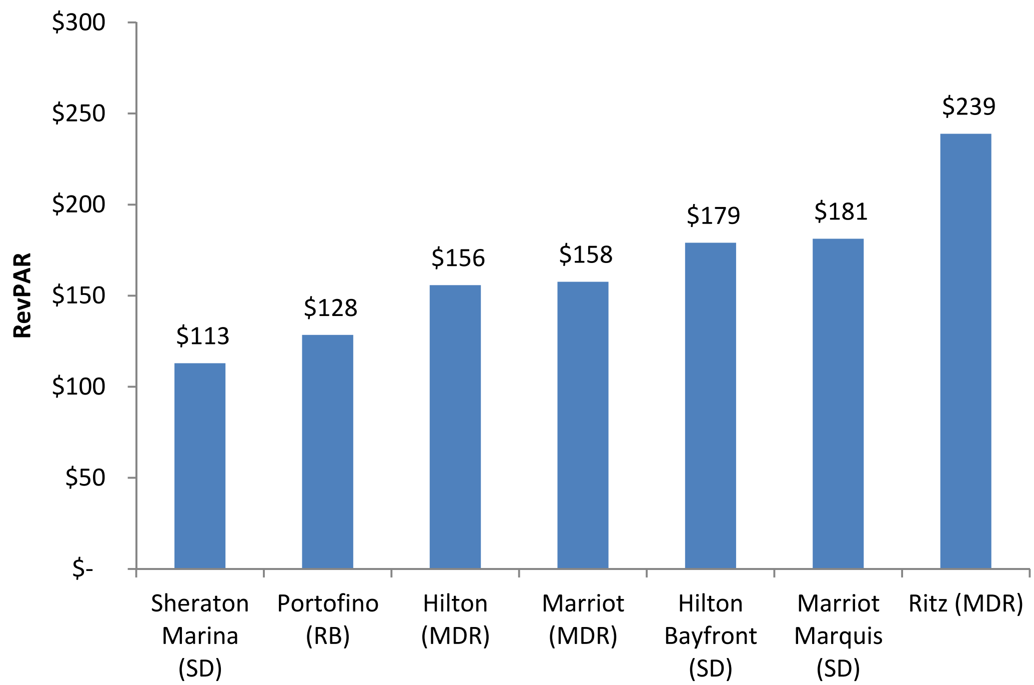
Source: STR; AECOM

Figure 33 – Hotel ADR Comparison (2008 – 2014 October Year-to-Date)



Source: STR; AECOM

Figure 34 – Benchmark RevPAR Analysis (2014)



Note: Marina del Rey (MDR); Redondo Beach (RB); San Diego (SD)
Source: STR; AECOM

SWOT ANALYSIS

The following summarizes the SWOT analysis for the site location as it relates to future hotel development.

Strengths:

- Ocean/harbor views from all rooms.
- Proximity to revitalized waterfront and associated activities – RDE, retail, and beach.
- Site location within a half-mile walking shed of many additional food and beverage and retail offerings in Redondo Beach.
- Proximity to LAX

Weaknesses:

- Low vehicle visibility.
- No freeway access.

Opportunities:

- To establish the property as the premium boutique location to bookend the waterfront planning.
- Create a "fun" or "cool" or "romantic" vibe, assuming the increasing popularity of the area over time.
- Opportunity to collaborate with a food and beverage operator to create a signature limited seating bar and or restaurant component.
- Possible rooftop environment, which is a popular amenity for boutique hotels.

Threats:

- Competition in market. While AECOM found sufficient market demand by analyzing Redondo Beach in relation to the larger South Bay market area, many of the planned and proposed hotel developments are in and around the Redondo Beach and being marketed as beach-adjacent boutique hotels. It is difficult to determine if the near-term planned rooms will dilute current submarket fundamentals.

DEMAND

The South Bay hotel submarket is performing in line with the larger Los Angeles hotel market. To estimate future demand, a 2.5 percent growth rate was utilized. This amount represents the rate at which the larger upper-priced hotel room night demand is projected to grow over the next 10 years. The following summarize the demand estimates:

- After total upper-priced room night demand was established in 2024, a 75 percent assumed occupancy rate was applied to establish the total supportable room nights in 2024. This assumed rate is reasonable because it represents a benchmark threshold where hotels can operate successfully (typically above 70 percent occupancy). A lower occupancy rate would decrease potential new hotel supply, as there would be additional capacity in the market. This assumption appears reasonable given the current hotel market fundamentals and projected occupancy above 80 percent in the near-term (next five-years).
- The change between projected annual supportable upper-priced room demand (2024) and current annual room supply (2014) was estimated to determine annual new upper-priced room night demand and then was divided by 365 to estimate new annual hotel room demand over the next 10-year period.
- The Los Angeles market upper-priced pipeline supply was deducted to estimate net new demand.
- The South Bay submarket capture rate of the larger Los Angeles upper-priced hotel market is based on its existing "fair share" of hotel room supply in the larger market area.
- For planning purposes, there appears to be sufficient demand for between 70 and 150 upper-priced hotel rooms over the next 10-years. This assumption appears reasonable based on development trends in the South Bay submarket area and assumed growth in the larger upper-priced hotel market.
- The proposed Project site would need to capture a significant portion of the citywide demand.

Figure 35 – Hotel Demand Analysis

Upper-Priced Hotel Room Demand in Los Angeles Market Area	
Room Night Supply (2014)	18,646,755
Occupancy (2014)	82%
Room Night Demand (2014)	15,215,752
Room Night Demand (2024) (1)	19,477,449
Assumed Occupancy	75%
Supportable Total Room Nights (2024)	25,969,932
New Room Night Demand (2014 - 2024)	7,323,177
New Supportable Rooms	20,063
Pipeline (2)	5,992
Net New Supportable Rooms in Los Angeles	14,071
South Bay Submarket Capture of New Upper-Priced Rooms	
South Bay Capture (3)	10.0%
South Bay Room Demand (2014 - 2024)	1,407
Pipeline (4)	674
Net New Supportable Rooms in South Bay	733
Redondo Beach Capture of New Upper-Priced Rooms (Rounded)	
Low @ 10%	70
Mid @ 15%	110
High @ 20%	150

(1) CAGR growth rate based on PKF projection and historic growth (2.5%)
(2) PKF; AECOM
(3) Fair share estimate based on current supply
(4) Includes properties under construction/renovation and planned/proposed
Source: STR; AECOM

PERFORMANCE ANALYSIS

As noted, typically boutique hotels will command a higher ADR than other hotel properties. Based on the set of reporting properties, the year-to-date ADR is $203. In comparison, upper-priced hotels year-to-date ADR is $156 in the larger South Bay submarket area. Typically the ADR for boutique/luxury properties will reflect a 20 to 30 percent premium above market pricing for competitive properties. Based on current pricing at the existing competitive properties (Shade and Beach House) the ADR might be well above the established competitive properties. However, to be conservative, it is assumed that the ADR for the hotel property will start at $230 in 2014 dollars. Occupancy rates are assumed to stabilize in line with the competitive hotel properties. For planning purposes, a target opening year (Year 1) occupancy level is projected at 65% and is anticipated to increase to 80 percent upon hotel stabilization (Year 5).

Figure 36 – Hotel Performance Analysis

	ADR	Occupancy	Room Revenue [1]	Gross Revenue [2]
Year 1				
ADR Estimate (Rounded) [3]				
Underperform (20% Premium)	$ 230	60%	$ 6,044,400	$ 9,299,000
Target (25% Premium)	$ 240	65%	$ 6,832,800	$ 10,512,000
Outperform (30% Premium)	$ 250	70%	$ 7,665,000	$ 11,792,000
Year 5 [4]				
ADR Estimate (Rounded)				
Underperform (20% Premium)	$ 230	75%	$ 7,555,500	$ 11,624,000
Target (25% Premium)	$ 240	80%	$ 8,409,600	$ 12,938,000
Outperform (30% Premium)	$ 250	85%	$ 9,307,500	$ 14,319,000

(1) Assumes 120 keys
(2) Room revenue = 70% of total gross revenue
(3) Premium applied to benchmark ADR
(4) Assumes 15% increase to hotel stabilization
Source: STR; AECOM

Section 5: Office

The following section outlines the market potential for the proposed office use at the proposed Project. The analysis includes a survey of competitive properties, an analysis of market fundamentals, and demand estimates.

CONTEXT

The proposed office will operate within the context of the South Bay commercial office market, part of the larger Los Angeles commercial market. Therefore, the Los Angeles County office market is first examined, including an overview of the regional trends that will affect demand and characteristics of creative office. Local office markets are then examined, including the primary market, defined as the City of Redondo Beach, and the secondary market, defined as the South Bay[10] (see Figure 45 for maps of these markets). Finally, employment growth projections in the area become the basis for office market demand. Onsite capture estimates accounting for expected competition, project quality, location, and amenities are then utilized to determine the supportable commercial square footage at the proposed Project.

MARKET REVIEW

The Los Angeles County regional office market comprises many submarkets, each with a distinct tenant profile, however office space is generally highly interchangeable between submarkets. Therefore, the demand for any one submarket is dependent on the overall strength of the larger regional office market. Development activity, absorption,[11] vacancy rates, and change in rental rates follow very similar patterns in most of the submarkets relative to the Los Angeles County market.

Since 2002, annual office deliveries[12] in Los Angeles have fallen, from a peak of more than five million square feet to less than one million square feet per year (as shown in Figure 37). Significantly lower volumes of new office have been delivered to the market since 2010. While the volume of deliveries has fallen in the recent past, net absorption has been positive since 2012. In 2014, 3.5M square feet of office was absorbed in Los Angeles County and the trend shows a rising absorption rate.

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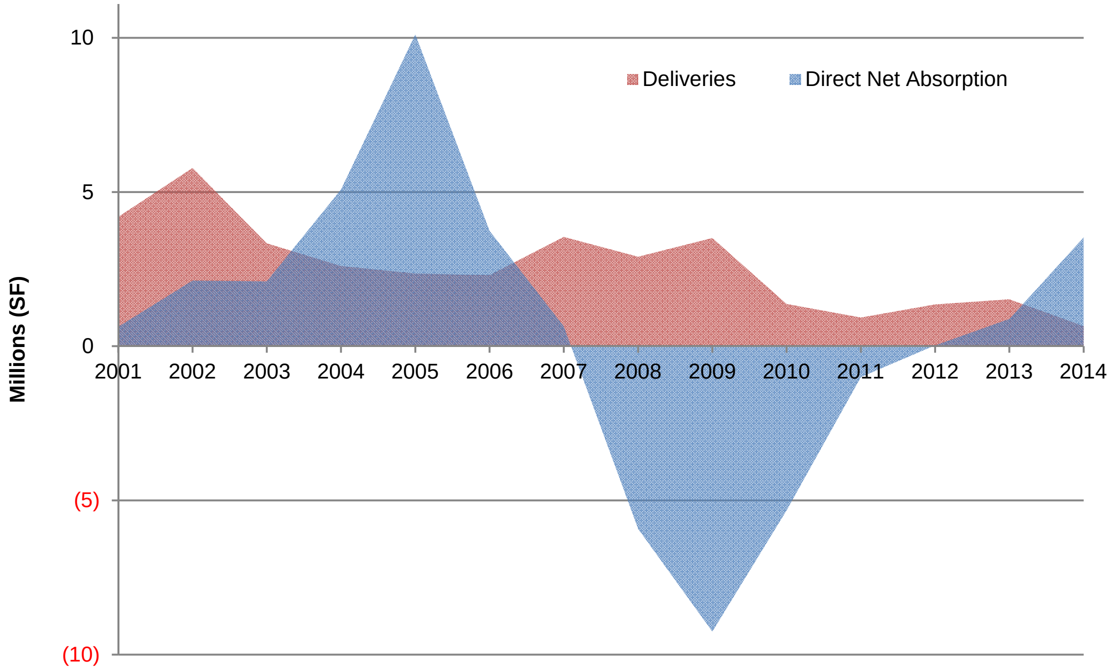
[10] South Bay defined as the following CoStar submarkets: Los Angeles- 190th Street Corridor, Los Angeles – Beach Cities/Palos Verdes, Los Angeles – El Segundo, Los Angeles – Hawthorne/Gardena, Los Angeles - LAX, Los Angeles – Torrance.

[11] Absorption refers to the change in physically occupied space during a given time period. Net absorption can be positive or negative. For example, when a tenant moves into a new location (positive absorption) and vacates its former space (negative absorption) the net change is measured.

[12] Deliveries are defined as buildings that complete construction during a specified period of time. In order for space (measured in leasable square feet) to be delivered, a certificate of occupancy must be issued for a property.

Figure 37 – Los Angeles County Office Deliveries and Absorption, 2001-2014



Source: CoStar

CREATIVE OFFICE MARKET TRENDS

Creative office is an emerging category of office space that is typically marketed to creative professionals, startups, and technology firms, among others. Tenants searching for creative office space are more likely to seek space with the following characteristics:

- **Finishes**. Creative office space is typically classified as Class B or Class C space. Finishes often include concrete floors and open or lofted ceilings. Some landlords now modify existing space with traditional finishes (drop ceilings, carpeting, interior walls) to better align with expected finishes.
- **Amenities**. Highly desirable amenities include open kitchens and attached outdoor space.
- **Location**. The most desirable creative office space is located in Venice and Santa Monica. Clusters of creative office space are also found in Playa Vista, Marina Del Rey, and Culver City. The City of El Segundo can be considered an aspirational creative office market.
- **Rents**. Due to the high demand for creative office in the submarkets noted above, creative office spaces command higher rent than other Class B and Class C offices in their markets.

Finishes

Creative office space can be differentiated from traditional office space in multiple ways. Creative office space has an “open” layout and may also be referred to as “industrial”. Typical elements include little distinction between workspaces (low or no cubicle walls), an area for enclosed “phone pods” designed for taking and making private telephone calls, conference rooms with glass doors, and a limited number of traditional enclosed offices. Finishes such as high and exposed ceilings, concrete floors, and operable windows contribute to the open feel. Finally, many creative office spaces provide an open kitchen and communal gathering space within the office.

Amenities

Access to private or shared outdoor space is a highly desirable amenity for creative office space, particularly given the favorable Southern California climate. Outdoor space can be used as a working space as well as an area for social gatherings. Established firms in creative office spaces typically offer in-office amenities and their build-out reflects these functions, such as communal kitchen. Additionally, campus-oriented creative office developments at times include retail space (for example, the elevon development in El Segundo).

Location

The highest concentrations of companies and supporting services are located in beach communities such as Venice and Santa Monica. Locating within a certain geographical area has its benefits, including proximity to potential investors, ability to collaborate and subcontract with nearby firms, and access to a larger aggregate labor pool (also advantageous to employees). The dominance of Santa Monica can be demonstrated by how much money its tech firms have raised: in 2Q2014, 44% of all capital raised in Los Angeles was raised by start-ups based in Santa Monica.[13]

The table below illustrates the differences in established versus creative office markets.

Figure 38 – Creative Office Markets in Los Angeles County

Market Type	Cities	Major Tenants	Occupancy	Inventory	Rents
Established	Santa Monica, Venice	Uber, Snapchat, Whisper	Very High, approx. 90%	Fixed	Up to $7 FSG
Emerging	Playa Vista, Marina Del Rey, Culver City	Google, Yahoo, Microsoft	Increasing, currently approx. 80%	Growing	Starting at $3 FSG

Source: AECOM

Drawbacks of locating in Venice or Santa Monica include a tight real estate market with high rents and low vacancy. As of late 2014, asking rents were approximately $7 per square foot range and with vacancy around 10%.[14] Newer companies are more likely to be sensitive to higher rents, while growing companies may be unable to expand their footprint in their current location. These constraints have increasingly expanded the geographical reach of clustered creative office space to places like Marina Del Rey, Playa Vista, and Culver City. Properties in El Segundo can also be classified as creative office; this market can be considered an aspirational creative office market.

Based on interviews with brokers and tenants in the market, it is clear that office location is selected based on multiple variables. Reasons that a firm would locate to the South Bay include:

- Founders, executives, or senior employees live in the South Bay
- Business includes travel and a central location is required
- Value proposition

Start-ups are located across the Los Angeles metro. The organization Represent LA tracks start-ups and related companies. The below map demonstrates the geographical dispersion of companies.

Lease Terms

The wide variety of professional services, technology, and entertainment-related companies seeking creative office translates to a broad array of lease terms. Landlords treat smaller, newer companies with a less secure financial position differently than established tech firms that are able to securitize a larger lease. According to

[13] http://www.entrepreneur.com/article/238696
[14] Sources include Richard Abbit, Avison Young Tech Heat Map and http://www.hollywoodreporter.com/news/why-tech-startups-are-exiting-742543.

broker interviews and information from a recently built creative office in Silicon Beach, lease terms are likely to include the following components:

- Rental Rates
  - Quoted up to $7 per square foot in Santa Monica and Venice
  - Down to $3 PSF across Silicon Beach
  - Recently constructed office building in Silicon Beach quoted at $3.45 NNN with rent escalations at 3.5% and Tenant Improvements of $60 PSF.
- Parking
  - Typically offered at 3 spaces per 1,000 SF of office space.
  - Tenants in the market have requested up to 6 spaces per 1,000 SF.
- Lease Term: Built-out space
  - Includes industrial-style
  - Tenant improvements limited
  - Short-term lease of 3 to 5 years may be acceptable
- Lease Term: Shell Space
  - Typically found in recently constructed projects
  - Long-term lease of 7 to 10 years
  - Tenant improvements between $60-$70 PSF

Creative Offices in the South Bay Market

As discussed previously, Santa Monica and Venice are firmly established as the most desirable location for technology tenants and start-ups. However, a considerable amount of large technology firms have located or are in the process of locating Playa Vista.

Figure 39 – Creative Office Tenants in Playa Vista

Tenant	SF	Move In Date	Details
Google	900,000 SF	tbd	Purchased 12 acres for $120M (Dec-14)
Google	319,000 SF	tbd	Howard Hughes Hanger (pending)
Yahoo	130,000 SF	3Q2015	400 employees + future growth. Expiration of lease at Colorado Center 3 of 5 buildings at The Collective
Microsoft	20,000 SF	2013	130 on-site employees
YouTube Space LA	41,000	4Q2012	Production facility for YouTube users with over 10,000 followers
Facebook	Data not available	2012	Los Angeles hub

Source: AECOM

CREATIVE OFFICE: BENCHMARK PROPERTIES

Two new-to-market properties serve as creative office benchmarks in the South Bay: Runway at Playa Vista and The Grand Kansas in El Segundo.

While primarily oriented as a retail destination, Runway includes approximately 30,000 square feet of new creative office development that will open in 2015. Leasing is currently underway and the leasing broker provided information regarding expected rents and occupancy levels based on current negotiations. As part of a mixed use retail-anchored destination, the office component of Runway provides a strong comparable for the proposed Project. Details are provided below.

Figure 40 – Creative Office space at Runway at Playa Vista

Type	Class	Delivery	Inventory (SF)	Occupancy	Asking Rent
Office	B (Loft/Creative)	1Q2015	32,725 SF	0%, Negotiations for 100%	$5.25 FSG

Source: Broker interview

Figure 41 – Runway at Playa Vista Office Floor Plate

Source: CoStar

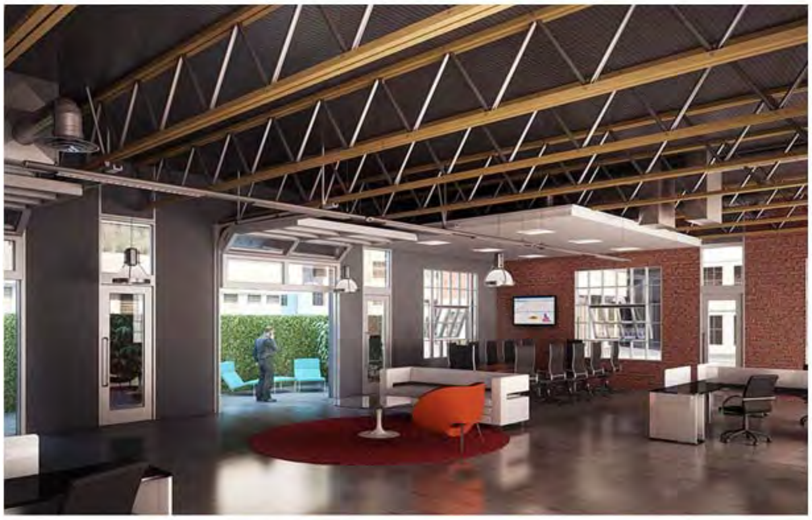
The Grand Kansas is another comparable creative office space located in El Segundo that opened in 2014. It is currently fully leased with quoted rents of $3.11 per square foot. Details and images are provided below.

Figure 42 – The Grand Kansas

Type	Class	Built	Inventory (SF)	Occupancy	Rent Quoted 2Q2014
Office Condominium	B	2014	17,529	100%	$3.11 FSG

Source: grandkansas.com

Figure 43 – The Grand Kansas renderings

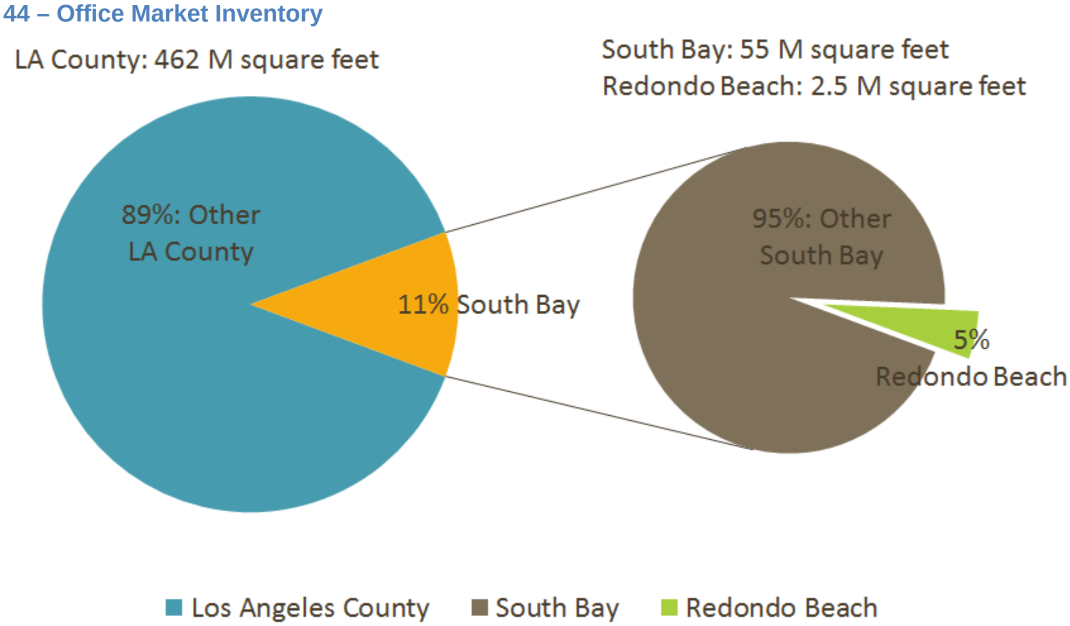


Source: CoStar

LOCAL CONTEXT

The Los Angeles County office market comprises approximately 462 million square feet of space, of which the South Bay represents 55 million square feet or 11 percent. Within the South Bay, Redondo Beach provides approximately 2.5 million square feet, or 5 percent, of local supply. The following graph shows the comparison in size of the office markets for Los Angeles County, the South Bay, and Redondo Beach.

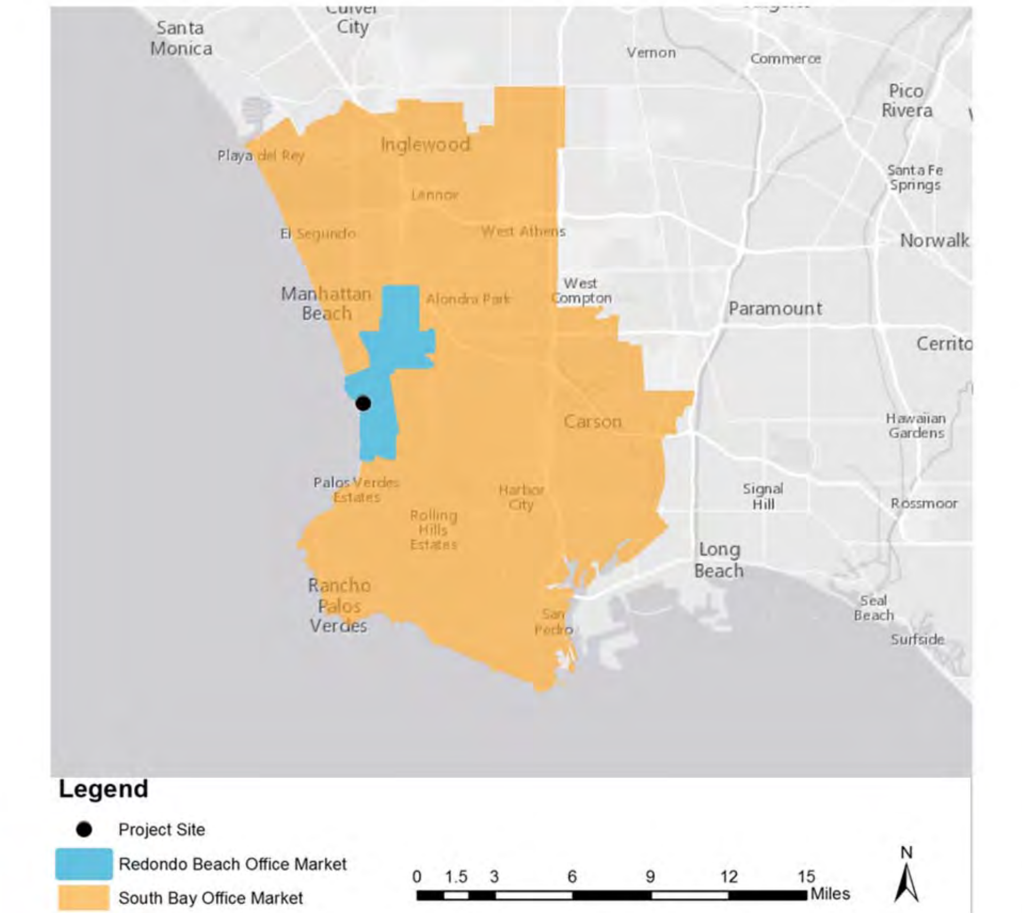
Figure 44 – Office Market Inventory



Note: Inventory includes "Flex" space
Source: CoStar

In this market study, the City of Redondo Beach is defined as the primary office market while the South Bay is defined as the secondary office market.

Figure 45 – Map of Redondo Beach Office Market (Primary) and South Bay Office Market (Secondary)

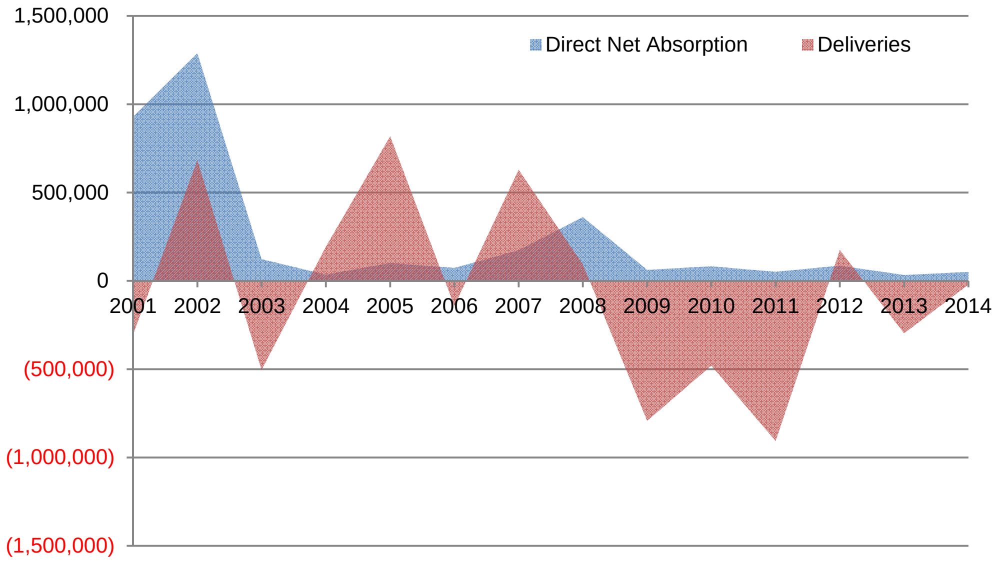


Source: AECOM

OFFICE FUNDAMENTALS

Deliveries and net absorption in the South Bay market are displayed in Figure 46. Net absorption has remained very low since around 2003. Office deliveries in between 2004 and 2008 contributed to positive absorption leading up to 2008, however the recession starting in 2008 contributed to net decrease in deliveries for most years between 2008 and 2014. Low rates of deliveries combined with low vacancy rates demonstrate increasing demand. An increase in demand provides an environment for future growth in inventory.

Figure 46 – South Bay Absorption and Deliveries

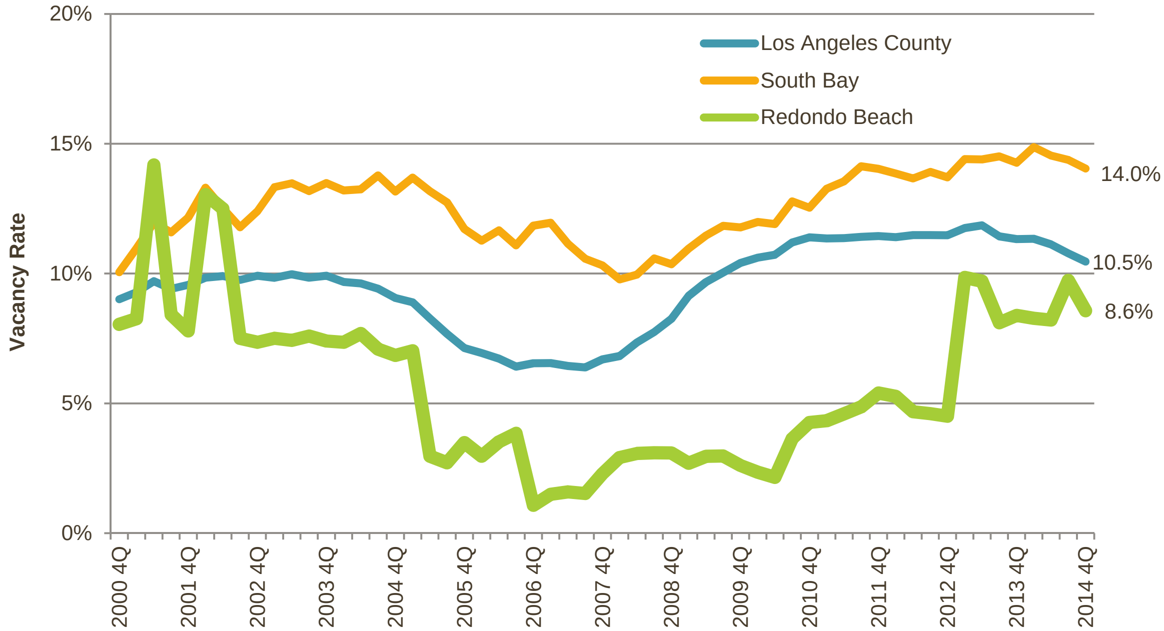


Source: CoStar

Two important measures to evaluate the state of the office market are vacancy rates and rental rates – both indicators are connected. Vacancy rate is a measure of how much space is currently on the market. In general, sustained vacancy rates around 10% paired with increasing rents indicates that a market can support new development.

Figure 47 displays office vacancy rates across Los Angeles County, the South Bay, and Redondo Beach. Redondo Beach consistently achieved the lowest vacancy between the examined markets. The more intense fluctuations can be contributed to the small market size compared to the South Bay and Los Angeles County. Redondo Beach's low vacancy is in marked contrast to the vacancy rates of the South Bay, which are higher than the overall rates in Los Angeles County. The largest difference in vacancy rates reached over five percentage points. Trends in 2014 indicate decreasing vacancy across the area.

Figure 47 – Office Market Vacancies, 2000-2014

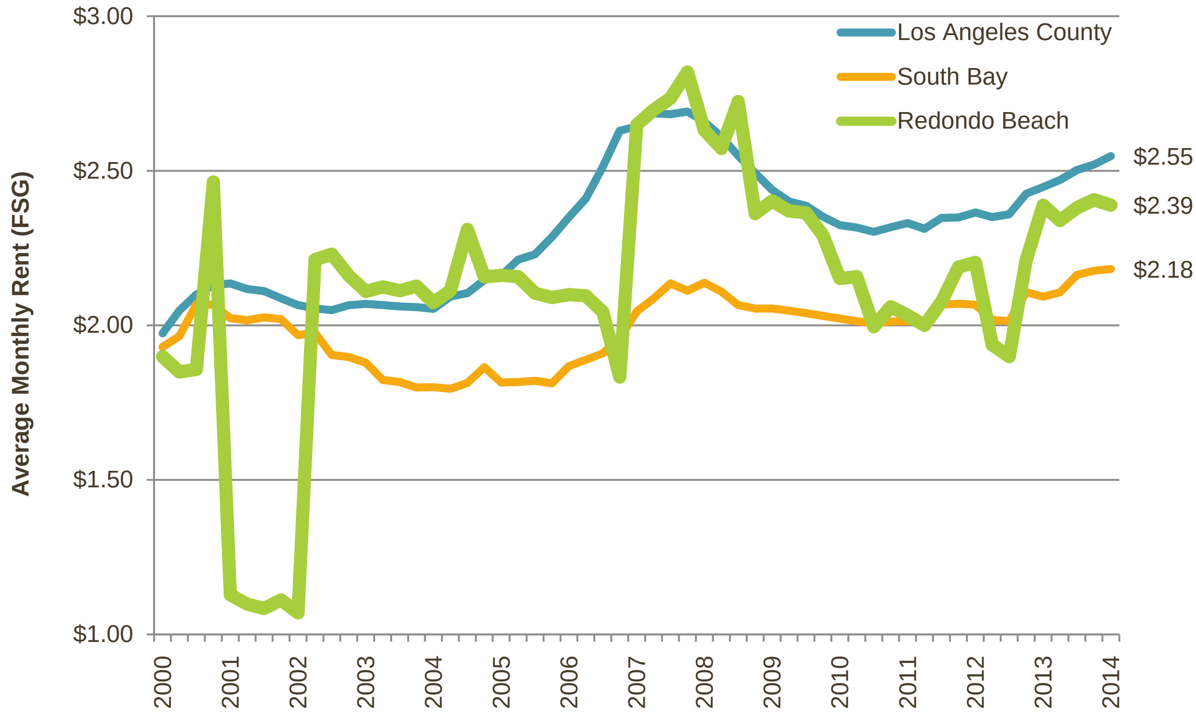


Source: CoStar

Rental rates are also an important indicator of the state of the office market. Prices below are quoted in full-service terms, which indicates that the items such as common area maintenance, taxes, and insurance are included in the rental terms and reimbursed (typically at a set schedule) on a regular basis.

Figure 48 displays the average office rental rates across Los Angeles County, the South Bay, and Redondo Beach. Redondo Beach has experienced the highest amount of fluctuations, due to its limited office inventory. Overall rates in Redondo Beach are generally on an upward trajectory, as are rents in the South Bay and Los Angeles County. As with the vacancy rates, Redondo Beach tracks with the overall office market for Los Angeles County more than it does to the South Bay region. This indicates that the strength of the market in Redondo Beach is more closely aligned with greater metro trends as opposed to nearby submarkets in the South Bay. In contrast, rates in the County are stronger than in Redondo Beach. Once again, the variation in rents in Redondo Beach can be attributed to the smaller market size.

Figure 48 – Office Market Rental Rates, 2000-2014



FSG = Full Service Gross
Source: CoStar.

BENCHMARK PROPERTIES

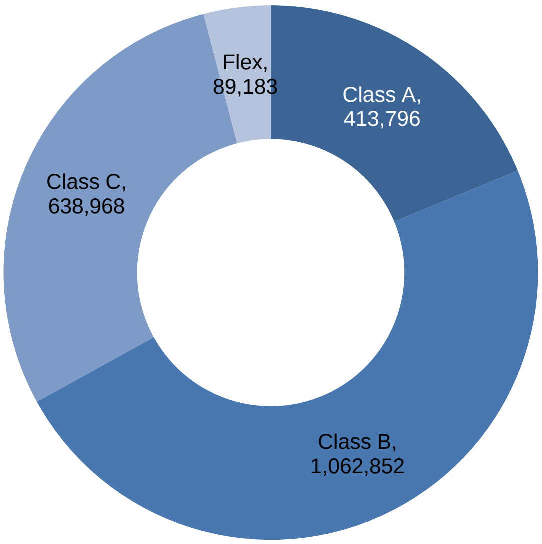
Rents and occupancy are also dependent on the age, location, and quality of the building. In Redondo Beach, Class A properties achieve significant rent premiums over Class B properties by a large margin. Furthermore, occupancy of 97% indicates very high demand. Additional demand for Class B and C office space is demonstrated by low vacancy rates (87% and 98%, respectively).

Figure 49 – Redondo Beach Inventory, Occupancy, and Rent by Class

Type	Inventory (SF)	% of Total	Occupancy	Monthly Rent (FSG)	Annual Rent (FSG)
REDONDO BEACH					
Class A	414,000	19%	97.1%	$3.73	$44.72
Class B	1,063,000	48%	87.2%	$2.38	$28.50
Class C	639,000	29%	98.2%	$2.26	$27.14
Flex	89,000	29%	43.9%	$1.20	$14.40
SOUTH BAY					
Class A	18,412,000	34%	79.5%	$2.10	$25.20
Class B	19,345,000	35%	85.8%	$2.22	$26.66
Class C	8,245,000	15%	90.2%	$2.39	$28.64
Flex	8,725,000	16%	93.5%	$1.24	$14.92

Source: CoStar

Figure 50 – Redondo Beach Office Inventory by Class



Values shown in square feet
Source: CoStar

A cluster of locally competitive office space to the proposed Project is located at Riviera Village in the Plaza Riviera building. Details on its performance are presented below, as are metrics on a neighboring Class C office development, the MJ Building.

Figure 51 – Riviera Village Office Performance

	Class	Inventory (SF)	Occupancy	Rent	Asking Rent
Plaza Riviera	B	50,700	90%	$3.13 FSG	$2.00 - $3.72
MJ Building	C	22,851	95%	$1.74 FSG	$1.60 - $1.98

Plaza Riviera

MJ Building

Source: CoStar

SWOT ANALYSIS

The following summarizes the SWOT analysis for the proposed Project as it relates to future office development.

Strengths:

- Waterfront location.
- Sited within a mixed-use development.
- Ability to provide parking at a rate desired in the market.

Weaknesses:

- Low vehicle visibility.
- No freeway access.

Opportunities:

- Low vacancies in primary market.
- Lack of recent office developments.
- No office development in the pipeline within the primary market.
- Start-ups and small businesses in the area prefer moving locally.

Threats:

- Creative office markets are more firmly established in existing markets to the north

DEMAND

The following describes the methodology to estimate anticipated office demand at the proposed Project. Detailed demand tables are provided in the **Appendix** of this report.

- Survey employment projections for Los Angeles County
- Determine 10-year total employment growth and office employment growth for Los Angeles County
- Translate regional employment growth into demand for office space in Redondo Beach
- Deduct planned and proposed office supply in Redondo Beach to achieve uncaptured demand estimate
- Estimate capture rate at proposed Project as percent of uncaptured demand

Key metrics and conclusions from the demand analysis are presented below.

Aggregate employment

Employment and job creation are typically the largest drivers of potential demand for office space.

Historical annual employment growth in Los Angeles County has been positive between 1970 and 2013 at approx. 0.8%. However, due to the recessions and economic contractions of 1992, 2001, and 2008, annual employment growth in the region between 1990 and 2010 was -0.3%.[15] These historical fluctuations in employment result in uncertainty when projections are developed for future employment. The result is a variety of projected growth rates developed from varied assumptions and explanations of historical data. This analysis utilized three different institutional forecasts to project future regional employment growth over the next ten years.

[15] The Bureau of Labor Statistics for Los Angeles County, Nonfarm Employment.

Figure 52 – Summary of Employment Projections for Los Angeles County

	Southern California Association of Governments	Bureau of Labor Statistics	California Employment Development Department
Base Year	2012	2013	2013
Base Year Employment	4,248,550	4,112,600	4,118,000
Projection Period	2012-2035	2013-2035	2013-2020
Annualized Employment Growth, Percent over Projection Period	0.64%	0.85%	1.45%

Source: Noted within figure

Employment Growth

Annual employment growth percentages were applied to current employment estimates to create total employment growth for the County on an annual basis. Based on current employment trends, 30% of all new employment growth is estimated to require office space. Office employment growth in the region was then allocated the South Bay based on a fair share fair share estimate of historical capture. Office employment was then translated to square feet of office based on a conservative estimate of 175 square feet per employee. Redondo Beach's capture of the South Bay market was estimated based on its historic fair share capture rate. Annual growth was then aggregated over a projected 10-year period. Additional details regarding calculations are provided in the **Appendix**.

The following table summarizes the estimated demand for office space in Redondo Beach, broken out by source of employment projection.

Figure 53 – Office Demand Summary

	SCAG	BLS	Cal EDD
EMPLOYMENT			
Annualized Growth: Office Jobs in Los Angeles County	8,784	11,456	18,713
Annualized Growth: Office Jobs in the South Bay	1,000	1,304	2,130
OFFICE SPACE (SF) @ 175 SF/employee			
Annualized Demand: South Bay Office (SF)	175,018	228,243	372,836
Annualized Demand: Redondo Beach Office (SF)	9,152	11,936	19,497
CUMULATIVE DEMAND (SF)			
Cumulative Demand: Redondo Beach (SF)	91,523	119,356	194,968

Cumulative demand estimated for the ten year period from 2015-2024. Additional details available in the Appendix.
Source: AECOM, based on sources noted in Figure 52.

Office Pipeline

Once the range of demand for office jobs in Redondo Beach was determined, the pipeline of potentially competitive supply was examined. These planned and proposed projects could be considered competition for the proposed Project. Aggregate future supply is deducted from the 10-year demand projections. According to the City of Redondo Beach, no office projects are projected to be completed by 2017. Thus, the uncaptured demand totals the total demand for the area for the near term.

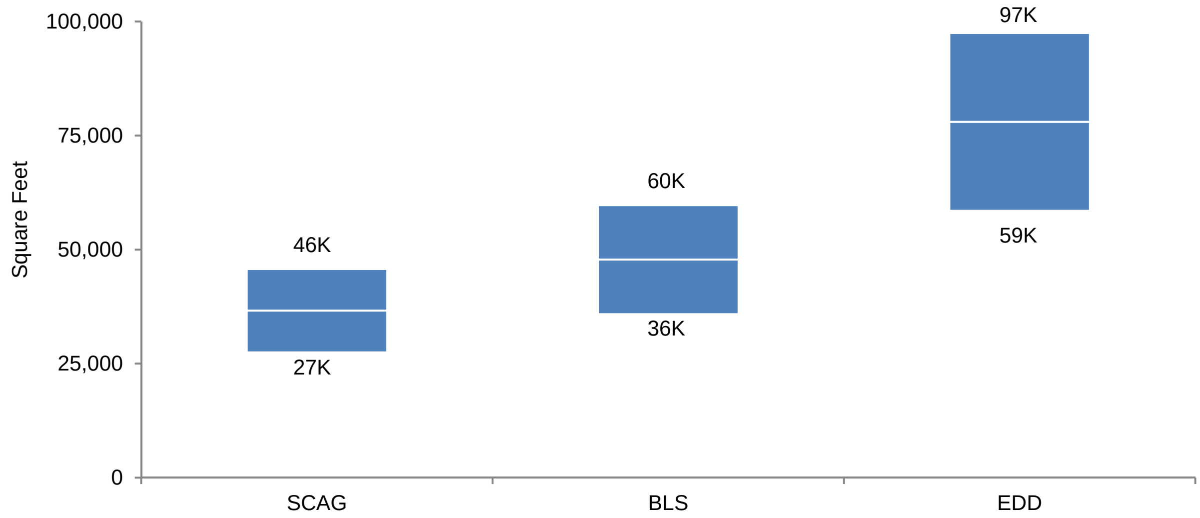
Office Capture

The next step in the demand analysis estimates the amount of estimated demand that can be captured by proposed Project. The proposed Project is projected to capture 30% to 50% of cumulative office demand in

Redondo Beach. This robust level of capture is possible due to: a limited primary market area without any recently delivered office product within the area, the lack of pipeline projects, the proposed Project's location within a mixed-use waterfront environment, and the expected level of finishes and amenities.

The figure below illustrates the range of supportable office space at the proposed Project according to the estimated capture rates (Low = 30%, high = 50%) and the source of employment projections (as described in Figure 52). Based on the analysis described above, the proposed Project appears able to capture sufficient demand to support new office development in the range of 40,000 to 50,000 SF.

Figure 54 – Supportable Office Space, SF



Source:Figure 52 Figure 53, AECOM

Estimated Revenue

Finally, gross office rental revenue is projected. It is assumed that vacancy will be higher in Year 1 and then declining to a stabilized occupancy rate in Year 5.

Achievable rent is estimated at $3.50 FSG per square foot. Achievable rent is supported by the following parameters and assumptions, as discussed in more detail in previous sections:

- Office finishes in the proposed Project are expected to be slightly lower than Class A finishes and include some characteristics of Class B creative office space.
  - The upper parameter in achievable rent is therefore Class A space in Redondo Beach, currently renting at $3.73 FSG.
  - The lower parameter in achievable rent is therefore Class B space in Redondo Beach, currently renting at $2.38 FSG.

- Specific, comparable products were then examined. The proposed Project is expected to outperform the following comparables because of its new construction status, location within a mixed-use RDE development with substantial external amenities, and its oceanfront address.
  - Creative office market rents in markets outside of Venice and Santa Monica start at approximately $3 FSG.
  - The Grand Kansas, a recent creative office development in El Segundo, quoted rents at $3.11 FSG.
  - Plaza Riviera, a Class B product in Redondo Beach situated in Riviera Village, has average existing rents of $3.13 FSG and asking rents of up to $3.72.

Upon reaching stabilized occupancy, the 45,000 office component of the proposed Project is projected to total $1.8 million in gross revenues based on an average rent of $3.50 PSF per month.

Figure 55 – Office Revenue Estimates

	Year 1 (Opening)	**Year 5 (Stabilized Operations)**
Occupancy	75%	95%
Achievable Rent ($PSF/month FSG)	Gross Rental Revenue	
$3.25 (Underperform)	$1,316,250	$1,667,250
$3.50 (Target)	$1,417,500	$1,795,500
$3.75 (Outperform)	$1,518,750	$1,923,750

Source: Figure 52 - Figure 54; AECOM

Appendix

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Figure 56 – F&B Spending – Resident Primary Market

	2014	2019
Households (HH) [1]	48,732	49,713
Average HH Income (2014$) [1]	$117,228	$117,228
Expenditures as Percent of Income [2]	73%	73%
Average HH Expenditures	$85,829	$85,829
Percent RDE Expenditures [2]	6.2%	6.2%
Average RDE Expenditures per HH	$5,321	$5,321
Total Expenditures	$259,323,857	$264,544,178
Project Capture	8.0%	8.5%
Target Sales (Rounded)	$20,700,000	$22,500,000

[1] ESRI Business Analyst (2014)

[2] Consumer Expenditure Survey (2013) for spending on:

Food away from home & Alcoholic Beverages

[3] AECOM

Source: ESRI, BLS, AECOM

Figure 57 – F&B Spending – Resident Secondary Market

	2014	2019
Households (HH) [1]	162,550	166,324
Average HH Income (2014$) [1]	$98,230	$98,230
Expenditures as Percent of Income [2]	75%	75%
Average HH Expenditures	$73,468	$73,468
Percent RDE Expenditures [2]	5.8%	5.8%
Average RDE Expenditures per HH	$4,261	$4,261
Total Expenditures	$692,649,184	$708,730,747
Project Capture [3]	6.0%	6.5%
Target Sales (Rounded)	$41,600,000	$46,100,000

[1] ESRI Business Analyst (2014)

[2] Consumer Expenditure Survey (2013) for spending on:

Food away from home

[3] AECOM

Source: ESRI, BLS, AECOM

Figure 58 – F&B Spending – Employee Primary Market

	2014	2019
Employed and Living Outside the Primary Market (0 -5 Minutes) [1]	7,121	7,590
Annual RDE Spending [2]	$1,389	$1,389
Total Expenditures	$9,890,499	$10,541,903
Project Capture [3]	9.0%	9.5%
Target Sales (Rounded)	$900,000	$1,000,000

[1] OnTheMap (2011)

[2] ICSC (2014) for spending on:

Full-service Restaurants and Fast Food

[3] AECOM

Source: US Census, ICSC, AECOM

Figure 59 – F&B Spending – Employee Secondary Market

	2014	2019
Employed and Living Outside the Primary Market (5 - 10 Minutes) [1]	43,142	46,000
Annual RDE Spending [2]	$1,389	$1,389
Total Expenditures	$59,920,787	$63,890,320
Project Capture [3]	7.0%	7.5%
Target Sales (Rounded)	$4,200,000	$4,800,000

[1] OnTheMap (2011)

[2] ICSC (2014) for spending on:

Full-service Restaurants and Fast Food

[3] AECOM

Source: US Census, ICSC, AECOM

Figure 60 – F&B Spending – Tourist Primary Market

	2014	2019
South Bay Hotel Inventory [1]	1,383	1,514
Average Occupancy [1]	80%	80%
Average Annual Room Nights	403,836	442,114
Average Length of Stay (nights) [2]	3.3	3.3
Number of Parties	122,375	133,974
Average Number of Persons per Party [2]	2.6	2.6
Number of Persons Staying in Commercial Hotels	313,279	342,973
RDE Spending Per Visitor Stay [2]	$106	$106
Tourism Expenditures	$33,214,899	$36,363,204
Capture [3]	9.0%	9.5%
Target Sales (Rounded)	$3,000,000	$3,500,000

[1] PFK Horizons (2014)

[2] LATCB, Longwoods (2014)

[3] Food and Beverage Eating Out

[4] AECOM estimate

Source: PKF, LATCB, Longwoods, AECOM

Figure 61 – F&B Spending – Tourist Primary Market

	2014	2019
South Bay Hotel Inventory [1]	9,667	10,583
Average Occupancy [1]	80%	80%
Average Annual Room Nights	2,822,721	3,090,276
Average Length of Stay (nights) [2]	3.3	3.3
Number of Parties	855,370	936,447
Average Number of Persons per Party [2]	2.6	2.6
Number of Persons Staying in Commercial Hotels	2,189,748	2,397,305
RDE Spending Per Visitor Stay [2]	$106	$106
Tourism Expenditures	$232,164,558	$254,170,489
Capture [3]	4.0%	4.5%
Target Sales (Rounded)	$9,300,000	$11,400,000

[1] PFK Horizons (2014)

[2] LATCB, Longwoods (2014)

[3] Food and Beverage Eating Out

[4] AECOM estimate

Source: PKF, LATCB, Longwoods, AECOM

Figure 62 – Entertainment/Retail Spending – Resident Primary Market

	2014	2019
Households (HH) [1]	48,732	49,713
Average HH Income (2014$) [1]	$117,228	$117,228
Expenditures as Percent of Income [2]	73%	73%
Average HH Expenditures	$85,829	$85,829
Percent RDE Expenditures [2]	8.4%	8.4%
Average RDE Expenditures per HH	$7,210	$7,210
Total Expenditures	$351,341,999	$358,414,693
Project Capture	7.0%	7.5%
Target Sales (Rounded)	$24,600,000	$26,900,000

[1] ESRI Business Analyst (2014)

[2] Consumer Expenditure Survey (2013) for spending on:

Food away from home & Alcoholic Beverages

[3] AECOM

Source: ESRI, BLS, AECOM

Figure 63 – Entertainment/Retail Spending – Resident Secondary Market

	2014	2019
Households (HH) [1]	162,550	166,324
Average HH Income (2014$) [1]	$98,230	$98,230
Expenditures as Percent of Income [2]	75%	75%
Average HH Expenditures	$73,468	$73,468
Percent RDE Expenditures [2]	7.6%	7.6%
Average RDE Expenditures per HH	$5,584	$5,584
Total Expenditures	$907,609,276	$928,681,669
Project Capture [3]	5.0%	5.5%
Target Sales (Rounded)	$45,400,000	$51,100,000

[1] ESRI Business Analyst (2014)

[2] Consumer Expenditure Survey (2013) for spending on:

Food away from home

[3] AECOM

Source: ESRI, BLS, AECOM

Figure 64 – Entertainment/Retail Spending – Employee Primary Market

	2014	2019
Employed and Living Outside the Primary Market (0 -5 Minutes) [1]	7,121	7,590
Annual RDE Spending [2]	$964	$964
Total Expenditures	$6,861,511	$7,313,420
Project Capture [3]	8.0%	8.5%
Target Sales (Rounded)	$500,000	$600,000

[1] OnTheMap (2011)

[2] ICSC (2014) for spending on:

Full-service Restaurants and Fast Food

[3] AECOM

Source: US Census, ICSC, AECOM

Figure 65 – Entertainment/Retail Spending – Employee Secondary Market

	2014	2019
Employed and Living Outside the Primary Market (5 - 10 Minutes) [1]	43,142	46,000
Annual RDE Spending [2]	$964	$964
Total Expenditures	$41,569,906	$44,323,760
Project Capture [3]	6.0%	6.5%
Target Sales (Rounded)	$2,500,000	$2,900,000

[1] OnTheMap (2011)

[2] ICSC (2014) for spending on:

Full-service Restaurants and Fast Food

[3] AECOM

Source: US Census, ICSC, AECOM

Figure 66 – Entertainment/Retail Spending – Tourist Primary Market

	2014	2019
South Bay Hotel Inventory [1]	1,383	1,514
Average Occupancy [1]	80%	80%
Average Annual Room Nights	403,836	442,114
Average Length of Stay (nights) [2]	3.3	3.3
Number of Parties	122,375	133,974
Average Number of Persons per Party [2]	2.6	2.6
Number of Persons Staying in Commercial Hotels	313,279	342,973
RDE Spending Per Visitor Stay [2]	$135	$135
Tourism Expenditures	$42,288,237	$46,296,567
Capture [3]	8.0%	8.5%
Target Sales (Rounded)	$3,400,000	$3,900,000

[1] PFK Horizons (2014)

[2] LATCB, Longwoods (2014)

[3] Food and Beverage Eating Out

[4] AECOM estimate

Source: PKF, LATCB, Longwoods, AECOM

Figure 67 – F&B Spending – Tourist Primary Market

	2014	2019
South Bay Hotel Inventory [1]	9,667	10,583
Average Occupancy [1]	80%	80%
Average Annual Room Nights	2,822,721	3,090,276
Average Length of Stay (nights) [2]	3.3	3.3
Number of Parties	855,370	936,447
Average Number of Persons per Party [2]	2.6	2.6
Number of Persons Staying in Commercial Hotels	2,189,748	2,397,305
RDE Spending Per Visitor Stay [2]	$135	$135
Tourism Expenditures	$295,585,120	$323,602,427
Capture [3]	3.0%	3.5%
Target Sales (Rounded)	$8,900,000	$11,300,000

[1] PFK Horizons (2014)

[2] LATCB, Longwoods (2014)

[3] Food and Beverage Eating Out

[4] AECOM estimate

Source: PKF, LATCB, Longwoods, AECOM

Figure 68 – Sales Performance and Rent Estimates by Scenario

	Underperform		Target		Outperform	
	2014	2019	2014	2019	2014	2019
Food & Beverage	125,100 SF	125,100 SF	125,100 SF	125,100 SF	125,100 SF	125,100 SF
Occupancy	85%	95%	85%	95%	85%	95%
Rent	$4.85	$4.85	$5.35	$5.35	$5.85	$5.85
Sales Per Square Foot	$730	$780	$800	$860	$880	$940
Implied Sales (Rounded)	$77,625,000	$92,699,000	$85,068,000	$102,207,000	$93,575,000	$111,714,000
Retail	99,900 SF	99,900 SF	99,900 SF	99,900 SF	99,900 SF	99,900 SF
Occupancy	85%	95%	85%	95%	85%	95%
Rent	$4.25	$4.25	$4.75	$4.75	$5.25	$5.25
Sales Per Square Foot	$640	$680	$710	$760	$790	$840
Implied Sales (Rounded)	$54,346,000	$64,535,000	$60,290,000	$72,128,000	$67,083,000	$79,720,000
Entertainment	35,000 SF	35,000 SF	35,000 SF	35,000 SF	35,000 SF	35,000 SF
Occupancy	100%	100%	100%	100%	100%	100%
Rent	$3	$3	$3	$3	$3	$3
Sales Per Square Foot	$305	$305	$320	$320	$330	$330
Implied Sales (Rounded)	$10,675,000	$10,675,000	$11,200,000	$11,200,000	$11,550,000	$11,550,000
Program	260,000 SF	260,000 SF	260,000 SF	260,000 SF	260,000 SF	260,000 SF
Occupancy	87%	96%	87%	96%	87%	96%
Rent (Rounded)	$4.25	$4.30	$4.70	$4.75	$5.15	$5.20
Sales Per Square Foot (Rounded)	$630	$680	$690	$750	$760	$820
Implied Sales (Rounded)	$142,646,000	$167,909,000	$156,558,000	$185,535,000	$172,208,000	$202,984,000

Source: AECOM

Figure 69 – Summary of Employment Projections for Los Angeles County

	Conservative	Base	Optimistic
Annualized Employment Growth, Percent	0.64%	0.85%	1.45%
Annualized Employment Growth, All Jobs	29,281	38,186	62,377
Annualized Employment Growth, Office Jobs	8,784	11,456	18,713

Source: AECOM calculations, based on sources noted in Figure 52

Figure 70 – Key Assumptions – Employment Projections and Office Demand

Metric	Value	Source
Office space per Employee	175 Square Feet	AECOM
Structural Vacancy	5%	AECOM
South Bay Office Capture Rate	11.4%	CoStar, South Bay's share of Los Angeles County occupied office space
Redondo Beach Office Capture Rate	5%	CoStar, Redondo Beach's share of South Bay occupied office space

Source: Noted within table

Figure 71 – Summary of Employment Projections for Los Angeles County

	Conservative	Base	Optimistic
10-year Demand for Office Space (SF)	91,523	119,356	194,968
2015-2017 Pipeline	0	0	0
10-year Uncaptured Demand for Office Space (SF)	91,523	119,356	194,968

Source: AECOM calculations, based on sources noted in Figure 52

Figure 72 – Summary of Study Site Capture Estimates

	Conservative	Base	Optimistic
10-year Uncaptured Demand for Office Space (SF)	91,523	119,356	194,968
Site Capture Rate			
30%	27,450	35,850	58,500
40%	36,600	47,800	78,000
50%	45,750	59,750	97,500

Source: AECOM calculations, based on sources noted in Figure 52

Figure 73 – Revenue Assumptions

Year 1 Vacancy	25%
Stabilized Vacancy	5.0%
Estimated Rent PSF/month (FSG)	$3.50
Estimate Rent PSF/year	$42.00

Source: AECOM

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