

COMMERCIAL REAL ESTATE SERVICES



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Sent via email to: ameyer@portofsandiego.com
No hard copy to follow

October 4, 2016

Mr. Adam Meyer
Real Estate Development
Port of San Diego
3165 Pacific Coast Highway
San Diego, California 92101

Dear Mr. Meyer:

Pursuant to your request, we have drafted this brief letter summarizing our consultation with you to date in your negotiations with RIDA Development Corporation (RIDA) relative to their proposed Chula Vista Bayfront Resort Hotel and Convention Center. As directed by you, we have completed a review of RIDA's most recent September 2016 proforma. Our review and analysis was focused on the reasonability of RIDA's revenue per available room (RevPAR) projections considering their current development program which assumes an increase to 1,450 available guest rooms from a previous count of 1,000 rooms. On a stabilized basis, RIDA has projected that the proposed larger hotel would stabilize at an occupancy of 77 percent and at a rate of \$215, stated in current 2016 dollars.

It should be noted that we were not provided with a new detailed facilities program but have assumed that the proposed public facilities (meeting space, food and beverage outlets, etc.) have increased proportionally with the rooms expansion. If this proves to be untrue we reserve the right to amend our findings. The following paragraphs set forth our analysis relative to reasonableness of RIDA's RevPAR projections based on the three points of comparison: historical and forecasted performance of the San Diego hotel market as a whole, historical performance of the larger group and convention oriented hotels in the City of San Diego, and the recent performance of a collection of many of the largest hotels in the United States (excluding Las Vegas, Nevada).

San Diego County Hotel Market

The following discussion is taken from CBRE Hotels, Americas Research's *Hotel Horizons*[®], September – November 2016 Edition for all hotels in the San Diego market. The historical data (2011 through 2015) is provided by Smith Travel Research, while the projections were developed by CBRE Hotels, Americas Research.

In 2015, San Diego Hotels finished the year with a RevPAR gain of 8.6 percent. This was the result of an increase in occupancy of 2.4 percent and a 6.1 percent gain in average daily room rates (ADR). The 8.6 percent boost in San Diego RevPAR was better than the national average of 6.2 percent.

San Diego's lower-priced properties finished 2015 ahead of its upper-priced properties in terms of RevPAR growth. The properties in this category achieved a 6.6 percent gain in ADR and saw a 3.4 percent increase in occupancy. Upper-priced hotels experienced an ADR growth rate of 6.4 percent along with a 1.7 percent gain in occupancy.

By year-end 2016, San Diego hotels are forecast to see a RevPAR increase of 2.2 percent. This is the result of an estimated minor decline in occupancy of 0.1 percent and a 2.2 percent gain in ADR. The 2.2 percent advance in San Diego RevPAR is less than the national projection of a 3.6 percent increase.

Leading the way in 2016 RevPAR growth is the lower-priced segment of San Diego. The properties in this category are forecast to attain a 4.6 percent gain in ADR and see a 0.7 percent increase in occupancy, resulting in a 5.3 percent RevPAR increase. Upper-priced hotels are projected to experience an ADR growth rate of 1.0 percent, along with a 0.8 percent loss in occupancy, resulting in a 0.2 percent RevPAR increase.

Looking towards 2017, San Diego RevPAR is expected to grow 5.9 percent. This is better than the rate of growth in 2016. Unlike 2016, prospects for RevPAR growth in the upper-priced segment (positive 6.0 percent) are better than in the lower-priced segment (positive 5.0 percent). San Diego market occupancy levels are expected to range from 75.8 percent to 76.8 percent during the five-year forecast period.

San Diego Forecast Summary

YEAR	OCC	Δ OCC	ADR	Δ ADR	REVPAR	Δ REVPAR
2011	68.5%	3.5%	\$126.37	3.6%	\$86.60	7.2%
2012	70.5%	2.8%	\$132.01	4.5%	\$93.01	7.4%
2013	71.5%	1.5%	\$135.61	2.7%	\$97.00	4.3%
2014	74.6%	4.2%	\$142.01	4.7%	\$105.88	9.2%
2015	76.3%	2.4%	\$150.69	6.1%	\$115.03	8.6%
2016F	76.3%	-0.1%	\$154.08	2.2%	\$117.51	2.2%
2017F	76.7%	0.6%	\$162.24	5.3%	\$124.46	5.9%
2018F	76.8%	0.1%	\$170.54	5.1%	\$130.92	5.2%
2019F	76.4%	-0.5%	\$177.07	3.8%	\$135.29	3.3%
2020F	75.8%	-0.8%	\$181.35	2.4%	\$137.46	1.6%

Source: CBRE Hotels' Americas Research, STR, Q2 2016

City of San Diego Convention Hotels

While the above discussion presents a good overall picture of the health of the local market we also explored the recent historical performance of a collection of larger convention and meeting oriented hotels, including the following four hotels:

- Sheraton San Diego Hotel & Marina - 1,053 rooms
- Hilton San Diego Bayfront - 1,190 rooms
- Marriott San Diego Marina - 1,360 rooms
- Manchester Grand Hyatt San Diego - 1,628 rooms

The aggregate average annual available and occupied rooms, resulting occupancy levels, average daily rate (ADR), and revenue per available room (RevPAR) for this sample set between 2011 and 2015 and year-to-date (YTD) through August 2015 and 2016 are presented in the following table.

Historical Market Performance of the Competitive Supply									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2011	1,909,315	N/A	1,442,977	N/A	75.6%	\$177.31	N/A	\$134.00	N/A
2012	1,909,315	0.0%	1,494,495	3.6%	78.3%	182.45	2.9%	142.81	6.6%
2013	1,909,315	0.0%	1,521,033	1.8%	79.7%	188.96	3.6%	150.53	5.4%
2014	1,909,315	0.0%	1,552,380	2.1%	81.3%	199.32	5.5%	162.06	7.7%
2015	1,909,315	0.0%	1,573,445	1.4%	82.4%	211.58	6.1%	174.36	7.6%
CAAG	0.0%		2.2%			4.5%		6.8%	
8/15 ytd	1,909,315	N/A	1,629,313	N/A	85.3%	\$216.80	N/A	\$185.00	N/A
8/16 ytd	1,909,315	0.0%	1,638,976	0.6%	85.8%	221.45	2.1%	190.10	2.8%

Source: CBRE Hotels

Supply for the identified competitive market remained consistent over the course of the historical period with the most recent hotel opening being the Hilton San Diego Bayfront, in December 2008. Demand as measured by occupied room nights for the competitive market has increased at a compound annual growth rate ("CAGR") of 2.2 percent over the past five years. The competitive market experienced demand growth over each year of the historical period. Similarly, ADR has shown increases in each year of the historical period. Over the five-year historical period ADR has increased at an annual average rate of 4.5 percent and increased at its strongest level in 2015, increasing by 6.1 percent from year-end 2014. Thus over the historical period RevPAR increased at a CAGR of 6.8 percent. As of YTD August 2016 occupancy is up slightly as compared with YTD August 2015, and the market has likely been operating at its peak level in terms of accommodated demand. ADR increased by 2.1 percent during the YTD period surveyed, leading to a RevPAR increase of 2.8 percent.

Large U.S. Meeting and Convention Hotels

Lastly as a check of reasonableness we also researched the recent occupancy and average daily rate levels of large hotels throughout the United States to further determine if the room count of a hotel was potentially a detriment to achievable occupancy and rate levels. As shown in the previous City of San Diego specific analysis this did not prove to be the case, but nonetheless we were interested in how large hotels performed. To do so we were able to survey 75 individual hotels on a national basis with 1,000 or more guestrooms for calendar year 2015. As noted in the introduction our survey sample excluded large hotels located in Las Vegas, for which there is not data available. The hotels

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ranged in size from exactly 1,000 rooms to a high of 2,882 rooms for an average of 1,367 available rooms. Occupancy levels for this collection of large hotels ranged from the mid-60's to the mid-90's, with an average of 78.1 percent. Given the wide geographical sample it is not surprising that average daily rates also exhibited a wide range, from lows of approximately \$120 to a peak of roughly \$300, for an average of \$193.74.

Conclusion

Based on the analysis presented herein, we are of the opinion that RIDA's estimates of occupancy and average daily rate in a stabilized year are reasonable given the data surveyed. All three methodologies utilized point to occupancy levels in the mid-70's to low 80's. Further the number of guestrooms does not appear to be a hindrance to achieving occupancy levels well above the national average based on our review of comparable data for the City of San Diego and the larger nation as a whole. Lastly the projected average daily rate falls within the admittedly wide range of the national comparables, but also more importantly the much tighter range of the four local San Diego hotels.

It is a pleasure to continue to work with you and all parties involved on this most interesting assignment. If we can be of any further assistance in the interpretation of our findings, please feel free to contact us.

Sincerely,

CBRE Hotels, Consulting



Bruce Baltin
Managing Director

TERMS AND CONDITIONS

1. The Terms and Conditions herein are part of an agreement for consulting services (the "Agreement") between CBRE, Inc. (the "Appraiser") and the client signing this Agreement, and for whom the consulting services will be performed (the "Client"), and shall be deemed a part of such Agreement as though set forth in full therein. The Agreement shall be governed by the laws of the state where the consulting office is located for the Appraiser executing this Agreement.
2. Client shall be responsible for the payment of all fees stipulated in the Agreement. Payment of the consulting fee and preparation of an consulting report (the "Appraisal Report, or the "report") are not contingent upon any predetermined value or on an action or event resulting from the analyses, opinions, conclusions, or use of the Appraisal Report. Final payment is due as provided in the Proposal Specifications Section of this Agreement. If a draft report is requested, the fee is considered earned upon delivery of the draft report. It is understood that the Client may cancel this assignment in writing at any time prior to delivery of the completed report. In such event, the Client is obligated only for the prorated share of the fee based upon the work completed and expenses incurred (including travel expenses to and from the job site), with a minimum charge of \$500. Additional copies of the Appraisal Reports are available at a cost of \$250 per original color copy and \$100 per photocopy (black and white), plus shipping fees of \$30 per report.
3. If Appraiser is subpoenaed or ordered to give testimony, produce documents or information, or otherwise required or requested by Client or a third party to participate in meetings, phone calls, conferences, litigation or other legal proceedings (including preparation for such proceedings) because of, connected with or in any way pertaining to this engagement, the Appraisal Report, the Appraiser's expertise, or the Property, Client shall pay Appraiser's additional costs and expenses, including but not limited to Appraiser's attorneys' fees, and additional time incurred by Appraiser based on Appraiser's then-prevailing hourly rates and related fees. Such charges include and pertain to, but are not limited to, time spent in preparing for and providing court room testimony, depositions, travel time, mileage and related travel expenses, waiting time, document review and production, and preparation time (excluding preparation of the Appraisal Report), meeting participation, and Appraiser's other related commitment of time and expertise. Hourly charges and other fees for such participation will be provided upon request. In the event Client requests additional consulting services beyond the scope and purpose stated in the Agreement, Client agrees to pay additional fees for such services and to reimburse related expenses, whether or not the completed report has been delivered to Client at the time of such request.
4. Appraiser shall have the right to terminate this Agreement at any time for cause effective immediately upon written notice to Client on the occurrence of fraud or the willful misconduct of Client, its employees or agents, or without cause upon 30 days written notice.
5. In the event Client fails to make payments when due then, from the date due until paid, the amount due and payable shall bear interest at the maximum rate permitted in the state where the office is located for the Appraiser executing the Agreement. In the event either party institutes legal action against the other to enforce its rights under this Agreement, the prevailing party shall be entitled to recover its reasonable attorney's fees and expenses. Each party waives the right to a trial by jury in any action arising under this Agreement.
6. Appraiser assumes there are no major or significant items or issues affecting the Property that would require the expertise of a professional building contractor, engineer, or environmental consultant for Appraiser to prepare a valid report. Client acknowledges that such additional expertise is not covered in the Appraisal fee and agrees that, if such additional expertise is required, it shall be provided by others at the discretion and direction of the Client, and solely at Client's additional cost and expense.
7. In the event of any dispute between Client and Appraiser relating to this Agreement, or Appraiser's or Client's performance hereunder, Appraiser and Client agree that such dispute shall be resolved by means of binding arbitration in accordance with the commercial arbitration rules of the American Arbitration Association, and judgment upon the award rendered by an arbitrator may be entered in any court of competent jurisdiction. Depositions may be taken and other discovery obtained during such arbitration proceedings to the same extent as authorized in civil judicial proceedings in the state where the office of the Appraiser executing this Agreement is located. The arbitrator shall be limited to awarding compensatory damages and shall have no authority to award punitive, exemplary or similar damages. The prevailing party in the arbitration proceeding shall be entitled to recover its expenses from the losing party, including costs of the arbitration proceeding, and reasonable attorney's fees. Client acknowledges that Appraiser is being retained hereunder as an independent contractor to perform the services described herein and nothing in this Agreement shall be deemed to create any other relationship between Client and Appraiser. This engagement shall be deemed concluded and the services hereunder completed upon delivery to Client of the Appraisal Report discussed herein.
8. All statements of fact in the report which are used as the basis of the Appraiser's analyses, opinions, and conclusions will be true and correct to Appraiser's actual knowledge and belief. Appraiser does not make any representation or warranty, express or implied, as to the accuracy or completeness of the information or the condition of the Property furnished to Appraiser by Client or others. TO THE FULLEST EXTENT PERMITTED BY LAW, APPRAISER DISCLAIMS ANY GUARANTEE OR WARRANTY AS TO THE OPINIONS AND CONCLUSIONS PRESENTED ORALLY OR IN ANY APPRAISAL REPORT, INCLUDING WITHOUT LIMITATION ANY WARRANTY OF FITNESS FOR ANY PARTICULAR PURPOSE EVEN IF KNOWN TO APPRAISER. Furthermore, the conclusions and any permitted reliance on and use of the Appraisal Report shall be subject to the assumptions, limitations, and qualifying statements contained in the report.

TERMS AND LIMITING CONDITIONS

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9. Appraiser shall have no responsibility for legal matters, including zoning, or questions of survey or title, soil or subsoil conditions, engineering, or other similar technical matters. The report will not constitute a survey of the Property analyzed.
10. Client shall provide Appraiser with such materials with respect to the assignment as are requested by Appraiser and in the possession or under the control of Client. Client shall provide Appraiser with sufficient access to the Property to be analyzed, and hereby grants permission for entry unless discussed in advance to the contrary.
11. The data gathered in the course of the assignment (except data furnished by Client) and the report prepared pursuant to the Agreement are, and will remain, the property of Appraiser. With respect to data provided by Client, Appraiser shall not violate the confidential nature of the Appraiser-Client relationship by improperly disclosing any proprietary information furnished to Appraiser. Notwithstanding the foregoing, Appraiser is authorized by Client to disclose all or any portion of the report and related data as may be required by statute, government regulation, legal process, or judicial decree, including to appropriate representatives of the Appraisal Institute if such disclosure is required to enable Appraiser to comply with the Bylaws and Regulations of such Institute as now or hereafter in effect.
12. Unless specifically noted, in preparing the Appraisal Report the Appraiser will not be considering the possible existence of asbestos, PCB transformers, or other toxic, hazardous, or contaminated substances and/or underground storage tanks (collectively, "Hazardous Material") on or affecting the Property, or the cost of encapsulation or removal thereof. Further, Client represents that there is no major or significant deferred maintenance of the Property that would require the expertise of a professional cost estimator or contractor. If such repairs are needed, the estimates are to be prepared by others, at Client's discretion and direction, and are not covered as part of the Appraisal fee.
13. In the event Client intends to use the Appraisal Report in connection with a tax matter, Client acknowledges that Appraiser provides no warranty, representation or prediction as to the outcome of such tax matter. Client understands and acknowledges that any relevant taxing authority (whether the Internal Revenue Service or any other federal, state or local taxing authority) may disagree with or reject the Appraisal Report or otherwise disagree with Client's tax position, and further understands and acknowledges that the taxing authority may seek to collect additional taxes, interest, penalties or fees from Client beyond what may be suggested by the Appraisal Report. Client agrees that Appraiser shall have no responsibility or liability to Client or any other party for any such taxes, interest, penalties or fees and that Client will not seek damages or other compensation from Appraiser relating to any such taxes, interest, penalties or fees imposed on Client, or for any attorneys' fees, costs or other expenses relating to Client's tax matters.
14. Appraiser shall have no liability with respect to any loss, damage, claim or expense incurred by or asserted against Client arising out of, based upon or resulting from Client's failure to provide accurate or complete information or documentation pertaining to an assignment ordered under or in connection with this Agreement, including Client's failure, or the failure of any of Client's agents, to provide a complete copy of the Appraisal Report to any third party.
15. LIMITATION OF LIABILITY. EXCEPT TO THE EXTENT ARISING FROM SECTION 16 BELOW, OR SECTION 17 IF APPLICABLE, IN NO EVENT SHALL EITHER PARTY OR ANY OF ITS AFFILIATE, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, OR CONTRACTORS BE LIABLE TO THE OTHER, WHETHER BASED IN CONTRACT, WARRANTY, INDEMNITY, NEGLIGENCE, STRICT LIABILITY OR OTHER TORT OR OTHERWISE, FOR ANY SPECIAL, CONSEQUENTIAL, PUNITIVE, INCIDENTAL OR INDIRECT DAMAGES, AND AGGREGATE DAMAGES IN CONNECTION WITH THIS AGREEMENT FOR EITHER PARTY (EXCLUDING THE OBLIGATION TO PAY THE FEES REQUIRED HEREUNDER) SHALL NOT EXCEED THE GREATER OF THE TOTAL FEES PAYABLE TO APPRAISER UNDER THIS AGREEMENT OR TEN THOUSAND DOLLARS (\$10,000). THIS LIABILITY LIMITATION SHALL NOT APPLY IN THE EVENT OF A FINAL FINDING BY AN ARBITRATOR OR A COURT OF COMPETENT JURISDICTION THAT SUCH LIABILITY IS THE RESULT OF A PARTY'S FRAUD OR WILLFUL MISCONDUCT.
16. Client shall not disseminate, distribute, make available or otherwise provide any Appraisal Report prepared hereunder to any third party (including without limitation, incorporating or referencing the Appraisal Report, in whole or in part, in any offering or other material intended for review by other parties) except to (i) any third party expressly acknowledged in a signed writing by Appraiser as an "Intended User" of the Appraisal Report provided that either Appraiser has received an acceptable release from such third party with respect to such Appraisal Report or Client provides acceptable indemnity protections to Appraiser against any claims resulting from the distribution of the Appraisal Report to such third party, (ii) any third party service provider (including rating agencies and auditors) using the Appraisal Report in the course of providing services for the sole benefit of an Intended User, or (iii) as required by statute, government regulation, legal process, or judicial decree. In the event Appraiser consents, in writing, to Client incorporating or referencing the Appraisal Report in any offering or other materials intended for review by other parties, Client shall not distribute, file, or otherwise make such materials available to any such parties unless and until Client has provided Appraiser with complete copies of such materials and Appraiser has approved all such materials in writing. Client shall not modify any such materials once approved by Appraiser. In the absence of satisfying the conditions of this paragraph with respect to a party who is not designated as an Intended User, in no event shall the receipt of an Appraisal Report by such party extend any right to the party to use and rely on such report, and Appraiser shall have no liability for such unauthorized use and reliance on any Appraisal Report. In the event Client breaches the provisions of this paragraph, Client shall indemnify, defend and hold Appraiser, and its affiliates and their officers, directors, employees, contractors, agents and other representatives (Appraiser and each of the foregoing an "Indemnified Party"

TERMS AND LIMITING CONDITIONS

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and collectively the "Indemnified Parties"), fully harmless from and against all losses, liabilities, damages and expenses (collectively, "Damages") claimed against, sustained or incurred by any Indemnified Party arising out of or in connection with such breach, regardless of any negligence on the part of any Indemnified Party in preparing the Appraisal Report.

17. In the event an Intended User incorporates or references the Appraisal Report, in whole or in part, in any offering or other material intended for review by other parties, Client shall indemnify, defend and hold each of the Indemnified Parties harmless from and against any Damages in connection with (i) any transaction contemplated by this Agreement or in connection with the consulting or the engagement of or performance of services by any Indemnified Party hereunder, (ii) any actual or alleged untrue statement of a material fact, or the actual or alleged failure to state a material fact necessary to make a statement not misleading in light of the circumstances under which it was made with respect to all information furnished to any Indemnified Party or made available to a prospective party to a transaction, or (iii) an actual or alleged violation of applicable law by an Intended User (including, without limitation, securities laws) or the negligent or intentional acts or omissions of an Intended User (including the failure to perform any duty imposed by law); and will reimburse each Indemnified Party for all reasonable fees and expenses (including fees and expenses of counsel) (collectively, "Expenses") as incurred in connection with investigating, preparing, pursuing or defending any threatened or pending claim, action, proceeding or investigation (collectively, "Proceedings") arising therefrom, and regardless of whether such Indemnified Party is a formal party to such Proceeding. Client agrees not to enter into any waiver, release or settlement of any Proceeding (whether or not any Indemnified Party is a formal party to such Proceeding) without the prior written consent of Appraiser (which consent will not be unreasonably withheld or delayed) unless such waiver, release or settlement includes an unconditional release of each Indemnified Party from all liability arising out of such Proceeding.
18. Time Period for Legal Action. Unless the time period is shorter under applicable law, except in connection with paragraphs 16 and 17 above, Appraiser and Client agree that any legal action or lawsuit by one party against the other party or its affiliates, officers, directors, employees, contractors, agents, or other representatives, whether based in contract, warranty, indemnity, negligence, strict liability or other tort or otherwise, relating to (a) this Agreement or the Appraisal Report, (b) any services or consulting under this Agreement or (c) any acts or conduct relating to such services or consulting, shall be filed within two (2) years from the date of delivery to Client of the Appraisal Report to which the claims or causes of action in the legal action or lawsuit relate. The time period stated in this section shall not be extended by any incapacity of a party or any delay in the discovery or accrual of the underlying claims, causes of action or damages.