

**ADDENDUM TO THE  
UPDATED ECONOMIC IMPACT AND FISCAL ANALYSIS STUDY  
MARISOL SPECIFIC PLAN**

The following information is offered in response to questions and comments forwarded by the City of Del Mar with regard to the Updated Economic Impact and Fiscal Analysis Study – Marisol Specific Plan prepared by Keyser Marston Associates, Inc. (KMA) and Maurice Robinson & Associates (MRA) in December 2019.

As shown below, responses to Questions #1 and #7 resulted in minor revisions to the KMA financial feasibility analysis and economic and fiscal impact analyses, respectively. It is the KMA view that these revisions reflect nominal adjustments to the analyses, with no meaningful impact on the conclusions presented in the KMA December 2019 report.

**Question #1: Page 49: The referenced report contains errors in Table A-4, the 10 Year Cash Flow, under Distributed Expenses. Expenses for the Spa, Retail and Parking are mislabeled. The Spa costs actually represent the Food & Beverage costs. It appears that the Distributed Expenses for Rentals have been excluded from the Table.**

KMA Response: The rows were labelled incorrectly. As such, the expenses for Rental & Other Income were not picked up. An updated Table A-4 cash flow model is attached. As shown, the residual land value changed from \$174 per square foot (SF) to \$172 per SF (*Refer to page 49, Table A-4 of December 2019 report*).

**Question #2: Page 48 and 49: The Developer 20% profit shown on page 48 is not included in the 10-year cash flow. Why not?**

KMA Response: KMA provided two different methodologies for evaluating real estate returns: (1) a stabilized land residual analysis; and (2) a land value analysis based on project cash flow. Both methods provide the developer a profit commensurate with the risk associated with the project. The 20% profit shown in the stabilized land residual land analysis is based on a *stabilized* return on sales measure. The land value analysis based on project cash flow reflects the *dynamic* cash flow which targets a 14% unleveraged internal rate of return.

**Question #3: Page 49: When is this Developer profit of 20% to be paid?**

KMA Response: See response to Question #2.

**Question #4: Page 49: The Attached Villa sale revenues do not reconcile with the footnote (8% commission and 2.5% escalation per year in the price). Can you reconcile?**

KMA Response: The numbers appear to reconcile in the model. Starting in Year 1, KMA has assumed sales prices increase 2.5% annually, with a sales volume based on the project phasing shown in the cash flow. The annual sales are then reduced by 8% to reflect the cost of sales.

**Question #5: Page 49: The Developer cost totals \$429.9 million. The Construction cost is \$292.1 million, so what else is included on the Developer Cost line?**

KMA Response: The cash flow adds the land value to the construction costs to arrive at the total development costs. The cost figures assume an annual escalation factor of 2.5% during the construction period.

**Question #6: Page 49: The cash flow chart shows the hotel being sold after 10 years for \$267 million. How is this sale value calculated?**

KMA Response: The sales value reflects: (a) the capitalization of Year 11 Net Operating Income (NOI), which reflects income and expenses escalated from Year 10, and (b) the cost of sales, as detailed below. Based on the changes noted in Question #1 above, the sales value has been updated to \$264.7 M.

Year 11 NOI	\$13.5 M
Terminal Capitalization Rate	<u>5.0%</u>
Capitalized Value	\$270.1 M
(Less) Cost of Sale @ 2% of Value	<u>(\$5.4) M</u>
Sales Value	\$264.7 M
Per Room @ 146 Rooms	\$1.8 M

**Question #7: Page 69: Regarding Resident Household Income and related spending: Occupancy is shown to be 85% for both the Attached and Detached Villa owners. If the Attached Villa Owners can only use the units for 120 days, shouldn't the occupancy reflect the resulting occupancy as 33% (120 of 365)?**  
**Note: The spending by the visitors to these Attached Villas is based upon 50% occupancy or 182 days, so the treatment of the Resident spending is a duplication.**

KMA Response: In response to this comment, on Tables D-7 and E-11 KMA has now incorporated an added factor of 33% to reflect the percent of the year the Attached Villas will operate as a residential use. It is now estimated that, in terms of the Attached Villas, there will be eight (8) full-time equivalent households, as compared to 23 full-time equivalent households previously assumed in the December 2019 report. As a result, the Economic and Fiscal Impact Analyses were updated with respect to the Visitor-Serving Development, as detailed below. Comparison of these revised conclusions with the original conclusions in the December 2019 report indicate that the bottom-line impact of this adjustment is nominal.

*Economic Impact Analysis – Ongoing Operations and Resident and Visitor Spending (Refer to Table II-2, Page 4 of December 2019 report)*

	(A) December 2019	(B) January 2020	(C) = (B)-(A) Difference
Annual Economic Output	\$128.5 M	\$119.2 M	(\$9.3 M)
Annual Personal Income	\$53.5 M	\$49.5 M	(\$4.0 M)
Employment (Full-Time Equivalent)	1,309	1,204	(105)

*Economic Impact Analysis – Resident and Visitor Spending (Refer to Page 4 of December 2019 report)*

	(A) December 2019	(B) January 2020	(C) = (B)-(A) Difference
Spending in City	\$34.6 M	\$34.1 M	(\$0.5 M)
Spending in Balance of County	<u>\$35.5 M</u>	<u>\$28.7 M</u>	<u>(\$6.8 M)</u>
Total Resident and Visitor Spending	\$70.1 M	\$62.8 M	(\$7.3 M)

*Economic Impact Analysis – Spending in Balance of County by Subarea  
(Refer to Pages 4 and 5 of December 2019 report)*

Community	(A) December 2019		(B) January 2020		(C) = (B)-(A) Difference	
	Low Capture	High Capture	Low Capture	High Capture	Low Capture	High Capture
<b>Solana Beach</b>						
Sales Tax	\$80,000	\$106,000	\$65,000	\$86,000	(\$15,000)	(\$20,000)
<b>San Diego Nearby Communities</b>						
Sales Tax	\$27,000	\$53,000	\$22,000	\$43,000	(\$5,000)	(\$10,000)
<b>Other County</b>						
Sales Tax	\$106,000	\$160,000	\$86,000	\$129,000	(\$20,000)	(\$31,000)

*Fiscal Impact Analysis – Estimate of Stabilized Annual Fiscal Impact  
(Refer to Table E-19 on Page 95 of December 2019 report)*

	(A) December 2019	(B) January 2020	(C) = (B)-(A) Difference
Annual Recurring Revenues	\$5.96 M	\$5.95 M	(\$0.01 M)
Annual Recurring Expenditures	<u>\$0.49 M</u>	<u>\$0.49 M</u>	<u>\$0</u>
Annual Recurring Surplus/(Deficit)	\$5.47 M	\$5.46 M	(\$0.01 M)

TABLE A-4

10 YEAR CASH FLOW  
106 UNIT MARISOL PROJECT  
DEL MAR, CALIFORNIA

Year	00	0	1	2	3	4	5	6	7	8	9	10
Hotel ADR			\$750.00	\$773.00	\$796.00	\$820.00	\$844.00	\$865.10	\$886.73	\$908.90	\$931.62	\$954.91
Hotel Occupancy			60%	65%	75%	75%	75%	75%	75%	75%	75%	75%
Villa ADR			\$1,250.00	\$1,287.67	\$1,326.33	\$1,366.00	\$1,407.33	\$1,442.52	\$1,478.58	\$1,515.54	\$1,553.43	\$1,592.27
Villa Occupancy			40%	45%	50%	50%	50%	50%	50%	50%	50%	50%
<b>Hotel Revenues</b>												
Hotel Rooms			\$10,676,300	\$11,920,600	\$14,163,800	\$14,590,900	\$15,017,900	\$15,393,400	\$15,778,200	\$16,172,700	\$16,577,000	\$16,991,400
Attached Villas			14,782,500	17,131,400	19,606,500	20,192,900	20,803,900	21,324,000	21,857,100	22,403,500	22,963,600	23,537,700
Food & Beverage			11,311,000	12,630,000	15,006,000	15,459,000	15,911,000	16,309,000	16,717,000	17,134,000	17,563,000	18,002,000
Spa			1,228,000	1,371,000	1,629,000	1,679,000	1,728,000	1,771,000	1,815,000	1,861,000	1,907,000	1,955,000
Retail/Gift Shop			246,000	274,000	326,000	336,000	346,000	354,000	363,000	372,000	381,000	391,000
Parking			491,000	549,000	652,000	671,000	691,000	708,000	726,000	744,000	763,000	782,000
Rentals & Other Income			191,000	213,000	253,000	261,000	269,000	275,000	282,000	289,000	296,000	304,000
Gross Sales			\$38,925,800	\$44,089,000	\$51,636,300	\$53,189,800	\$54,766,800	\$56,134,400	\$57,538,300	\$58,976,200	\$60,450,600	\$61,963,100
<b>Expenses</b>												
<i>Distributed Expenses</i>												
Hotel Rooms			\$2,349,000	\$2,623,000	\$3,116,000	\$3,210,000	\$3,304,000	\$3,387,000	\$3,471,000	\$3,558,000	\$3,647,000	\$3,738,000
Attached Villas			1,626,000	1,884,000	2,157,000	2,221,000	2,288,000	2,346,000	2,404,000	2,464,000	2,526,000	2,589,000
Food & Beverage			8,144,000	9,094,000	10,804,000	11,130,000	11,456,000	11,742,000	12,036,000	12,336,000	12,645,000	12,961,000
Spa			872,000	973,000	1,157,000	1,192,000	1,227,000	1,257,000	1,289,000	1,321,000	1,354,000	1,388,000
Retail/Gift Shop			160,000	178,000	212,000	218,000	225,000	230,000	236,000	242,000	248,000	254,000
Parking			295,000	329,000	391,000	403,000	415,000	425,000	436,000	446,000	458,000	469,000
Rentals & Other Income			96,000	107,000	127,000	131,000	135,000	138,000	141,000	145,000	148,000	152,000
Total Distributed Expenses			\$13,542,000	\$15,188,000	\$17,964,000	\$18,505,000	\$19,050,000	\$19,525,000	\$20,013,000	\$20,512,000	\$21,026,000	\$21,551,000
<i>Undistributed Expenses</i>												
General & Administration			\$2,725,000	\$3,086,000	\$3,615,000	\$3,723,000	\$3,834,000	\$3,929,000	\$4,028,000	\$4,128,000	\$4,232,000	\$4,337,000
Franchise Fees			0	0	0	0	0	0	0	0	0	0
Sales & Marketing			1,946,000	2,204,000	2,582,000	2,659,000	2,738,000	2,807,000	2,877,000	2,949,000	3,023,000	3,098,000
Utilities			779,000	882,000	1,033,000	1,064,000	1,095,000	1,123,000	1,151,000	1,180,000	1,209,000	1,239,000
Maintenance & Property Operation			1,168,000	1,323,000	1,549,000	1,596,000	1,643,000	1,684,000	1,726,000	1,769,000	1,814,000	1,859,000
Residual Owner Fee			7,391,000	8,566,000	9,803,000	10,096,000	10,402,000	10,662,000	10,929,000	11,202,000	11,482,000	11,769,000
Total Undistributed Expenses			\$14,009,000	\$16,061,000	\$18,582,000	\$19,138,000	\$19,712,000	\$20,205,000	\$20,711,000	\$21,228,000	\$21,760,000	\$22,302,000
Management Fees			\$1,168,000	\$1,323,000	\$1,549,000	\$1,596,000	\$1,643,000	\$1,684,000	\$1,726,000	\$1,769,000	\$1,814,000	\$1,859,000
<i>Fixed Expenses</i>												
Property Tax			\$972,000	\$991,000	\$1,011,000	\$1,031,000	\$1,052,000	\$1,073,000	\$1,094,000	\$1,116,000	\$1,138,000	\$1,161,000
Insurance			320,000	326,000	333,000	340,000	347,000	354,000	361,000	368,000	375,000	383,000
FF&E Reserves			966,000	1,094,000	1,281,000	1,320,000	1,359,000	1,393,000	1,428,000	1,463,000	1,500,000	1,538,000
Total Fixed Expenses			\$2,258,000	\$2,411,000	\$2,625,000	\$2,691,000	\$2,758,000	\$2,820,000	\$2,883,000	\$2,947,000	\$3,013,000	\$3,082,000
Project NOI			\$7,949,000	\$9,106,000	\$10,916,000	\$11,260,000	\$11,604,000	\$11,900,000	\$12,205,000	\$12,520,000	\$12,838,000	\$13,169,000
Project Construction Costs			\$293,138,000									
<b>Project Land Value</b>			<b>\$124,300,000</b>									
Project Development Costs			\$417,438,000									
Villa Sales Revenue			\$283,500,000	Single Family Revenue		\$88,000,000						
<b>Return Computations</b>												
	Year 00	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
<i>Project Phasing</i>												
Attached Villa Sales	0.0%	20.0%	30.0%	30.0%	20.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Detached Villa Sales	0.0%	25.0%	50.0%	25.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Construction Costs	20.0%	55.0%	25.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Hotel & Villa Net Operating Income			\$7,949,000	\$9,106,000	\$10,916,000	\$11,260,000	\$11,604,000	\$11,900,000	\$12,205,000	\$12,520,000	\$12,838,000	\$13,169,000
Net Hotel Sales Proceeds <sup>1</sup>												\$264,659,000
Net Attached Villa Sales Proceeds <sup>2</sup>	\$0	\$52,164,000	\$80,202,000	\$82,207,000	\$56,175,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Detached Villa Proceeds <sup>3</sup>	\$0	\$20,900,000	\$42,845,000	\$21,958,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Project Development Costs <sup>4</sup>	(\$83,488,000)	(\$235,331,000)	(\$109,643,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Project Income	(\$83,488,000)	(\$162,267,000)	\$21,353,000	\$113,271,000	\$67,091,000	\$11,260,000	\$11,604,000	\$11,900,000	\$12,205,000	\$12,520,000	\$12,838,000	\$277,828,000
Project IRR	14.00%											

<sup>1</sup> Assumes 5.0% cap rate and 2.0% cost of sale. In addition, Villa revenues to Hotel entity remain unchanged.

<sup>2</sup> Assumes commissions/closings/brand costs of 8.0% and sales prices escalate 2.5% annually.

<sup>3</sup> Assumes commissions/closings of 5.0% and sales prices escalate 2.5% annually.

<sup>4</sup> Escalates 2.5% annually.