



ADDENDUM – COMMENTARY ON FULL-SERVICE UPSCALE FEASIBILITY

Proposed Laguna Hills Hotel

LAGUNA HILLS MALL, CALLE DE LA LOUISA
LAGUNA HILLS, CALIFORNIA



SUBMITTED TO:

Stephen T. Logan
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PREPARED BY:

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Re: Proposed Laguna Hills Hotel
Laguna Hills, California
HVS Reference: 2021022179

Dear Mr. Logan:

Pursuant to your request, we herewith submit our response pertaining to your question on the feasibility of an upscale full-service hotel for the above-referenced project in the Laguna Hills, California, area.

As a reminder STR categorizes hotels by ADR. Therefore, an upscale full-service hotel would not be expected to have a significantly higher ADR than an upscale select-service hotel. Starting from this understanding, it would be challenging to make an upscale full-service hotel feasible if ADR levels will be relatively similar to the select-service scenario, since construction costs for the full-service scenario will be much higher.

If we take it a step further, we have in our competitive set one upscale full-service hotel, which can provide an understanding of ADR levels for this specific product. The DoubleTree by Hilton Irvine Spectrum in our competitive achieved an ADR of ~\$185 in 2019. We also have the Sonesta Laguna Hills, which is categorized as upscale, but one could argue that falls between select and full service. The Sonesta is seeking to move more toward a full-service offering. The Sonesta had an ADR of ~\$145 in 2019.

Our selected ADR for the upscale select-service scenario was \$175 in 2019 dollars and \$205 for the upper-upscale full-service scenario. The above information means that on a best-case scenario we would be looking at an ADR of \$185-\$190 for upscale full-service scenario, ultimately falling between the two scenarios previously studied.

As such, the upscale full-service scenario is likely to achieve an ADR increase of \$10 to \$15 over the select-service scenario, or approximately 5% to 9% higher. However, construction costs are likely to fall between the select service upscale and the full-service upper-upscale category. Development costs for select-service were about \$275,000 per room and for full-service \$375,000. Construction costs for a full-service hotel would be higher due to the additional requirements that arise from the inclusion of an expanded food and beverage offering as well larger meeting venues. Furthermore, the clientele and brand expectations for a full-service property would demand a higher level of quality, which would result in higher costs associated with flooring and wall finishes, furniture, fixtures, and

equipment. As such, the development of an upscale full-service hotel is likely to fall in the middle, at approximately \$325,000 or higher, or approximately 18% higher than the select-service scenario.

As illustrated in the select-service scenario, the valuation at opening was expected to be 1.5% higher than the estimated development costs. In this new upscale full-service scenario, with ADR being 9% higher but costs at least 18% higher, the full-service upscale scenario would not be feasible.

We hereby certify that we have no undisclosed interest in the property, and our employment and compensation are not contingent upon our findings. This memo is meant to be part of the summary of findings previously completed for the above-referenced subject property and is subject to the comments made throughout that report and to all assumptions and limiting conditions set forth therein.

Sincerely,
TS Worldwide, LLC

A handwritten signature in black ink, appearing to read 'Luigi Major', with a stylized flourish extending to the right.

Luigi Major, MAI, Managing Director
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