ATTACHMENT Q:

Financial Analysis of Project

MEMORANDUM

To: David Klug, Senior Project Manager
Economic Development Division, City of Pasadena

From: Kevin Engstrom
James Rabe

cc. Eric Duyshart

Date: June 9, 2016

Subject: Review of Kimpton Submittal

We had a chance to conduct a quick review of the Kimpton submittal. Without analyzing their submittal, here are some thoughts on the information they provided:

1. Kimpton indicates the construction costs increased nearly $15 million since 2014 ($53.2 million to $68.0 million). This change reflects a 28% increase in costs for the project, with the vast majority of these costs driven by construction cost inflation. Throughout, the Southern California hotel construction costs continue to outpace inflation, as increased competition for contractors and higher quality amenity packages continue to push hotel costs upward.

2. Kimpton is showing revenues have not increased at the same rate as costs, as the 2022 room revenues were projected to be $13.3 million in the 2014 version compared to $13.6 million in the 2016 version, only a 2% increase. For context, the Pasadena hotel market improved at faster rate over this period with RevPAR (ADR * Occupancy) increasing from $146 to $154 (5.0%) between year-end 2014 and 2015 (Source: PKF).

3. The modest revenue increases with a significant increase in costs reduces Kimpton's returns. A typical Project IRR for hotels, which analyzes total project costs and NOI over time, can range from 10% to 13%. In 2014 the project supported a 9.1% IRR, the current IRR is now 5.9%. The current Project IRR is significantly below market, indicating Kimpton is willing to absorb a healthy

amount of risk on this project. Given the modest revenue increase projected by Kimpton between 2014 and 2016, we would expect that they believe there is greater upside in the market.

Overall, Kimpton is willing to move forward with a project that generates below market returns, this would indicate a significant desire to be in the Pasadena market. If the project proceeds as planned, the City would receive over the next 20 years $39.3 million of TOT and $1.5 million in sales tax revenue, plus ground lease revenues. In addition, the City would receive $3.6 million in property tax revenue (assuming the City's share is still 21.1% of the general levy).

Please do not hesitate to contact us with any questions.