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NO HARD COPY TO FOLLOW

December 7, 2015

Sweetwater Vistas LLC  
c/o Mr. Terry Plowden  
Senior Managing Director  
Douglas Wilson Companies  
1620 Fifth Avenue, Suite 400  
San Diego, California 92101

Dear Mr. Plowden:

Pursuant to your request, we have drafted this letter relative to the appropriateness of the hotel component proposed within The Pointe Specific Plan. As we understand it, you are in the process of re-entitling the approximately 52-acre site for 255 multi-family residential units and have asked us for an opinion on the viability of a large, luxury destination resort initially proposed to be developed on the subject site. While we have considered the other uses in the Amendment, this letter is intended to specifically speak to the likely feasibility of the hotel component.

It should be noted that our firm has a high degree of familiarity with the proposed resort and have completed a number of market demand studies for the resort in the past few decades. While a number of these studies were positive in nature for the development of a hotel of some kind, as will be described herein, both the specific resort components and the nature of resort development have changed dramatically in the past 20 to 30 years. Furthermore, we understand environmental regulations have also changed significantly since approval of the Specific Plan Amendment in 2003. The filling of Hansen's Creek and the disturbance of other sensitive habitats contemplated under the approved plan are no longer permitted. Thus, the resort could not be built today given the biological constraints of the site.

## **BACKGROUND**

As outlined in The Pointe San Diego Specific Plan Amendment approved by the San Diego County Board of Supervisors in October 2003, the development as proposed was planned to be a \$750 million luxury five-star caliber destination resort community to include commercial,

retail, resort, dining, residential, and recreational components. Specifically the master planned mixed-use development was to include the following components: a 706-room resort and convention center, 572 single-family detached homes, 283 multi-family units, 708,300 square feet of office space, and a golf course. As proposed by Gosnell Builders, the destination resort was intended to be the focal point of the larger mixed-use development. By our estimate, the proposed resort would have supported approximately 1,100 employees, assuming of course that it was a viable operating business. The elimination of these jobs would have a negative impact to the local community.

The \$300 million resort was planned to consist of three buildings, a convention center surrounded by the central guest lodging structure providing a total of 453 suites. The minimum accommodation was to be a 600 square foot, two-bedroom suite. Eleven adjacent mountainside buildings were to contain 23 guest suites each for a total of 706 suites. The main building suite entrances would be surrounded by courtyards, pools, cabana bars, water features, and other recreational facilities. The convention center would feature a 20,000 square foot grand ballroom, an 8,200 square foot junior ballroom, and supplementary meeting areas and breakout rooms, totaling 52,500 available square feet of dedicated meeting space. An additional 20,550 square feet of exhibition space would be located in an adjacent pavilion tent. Also included in the resort complex were three freestanding restaurants, golf course, and an equestrian facility.

Based on our understanding of the proposed project at the time of its planned development, the focal point of the resort was to be an 18-hole championship golf course, driving range, and a full-service clubhouse. The course was planned to incorporate the natural beauty of the terrain and preserve the unspoiled upland vegetation and include seven planned water features. Located at the base of Mount Miguel along the east shore of the Sweetwater Reservoir, the course was to begin play in the lowlands near the clubhouse and play upwards across the slope of the mountainside. Elevated tees on the upper portions of the course were planned to enjoy spectacular views of the reservoir and ocean beyond. As such the golf course was intended not only to serve as an amenity to hotel guests and local residents, but more importantly to drive demand to the resort itself by creating an authentic point of differentiation through the offering of a world-class facility.

#### **PROJECT VIABILITY AS ORIGINALLY PROPOSED**

As outlined in the Specific Plan, the proposed project was represented by Gosnell Builders to be a wonderful amenity for the community and create thousands of jobs. However in actuality, the company spent more than three decades attempting to develop the project, and ultimately was unsuccessful in bringing the project to fruition, with Sweetwater Vistas LCC foreclosing on the site in September 2014. In order to evaluate the likely feasibility of the project as proposed to be a luxury five-star caliber destination resort, we have completed an analysis of the following key areas of study as they relate to the site and the likely future demand for hotel accommodations:

- Access, visibility, and ambiance

- Relationship to demand generators
- Relationship to area amenities
- Advantages/disadvantages of the site versus the major competitors
- Existing supply of 5-star hotels and analogous properties

The site area lies in the Spring Valley Community, an unincorporated area of San Diego County. Located approximately 15 miles east of Downtown San Diego, and is generally bounded by the Dictionary Hill and La Presa neighborhoods to the west, Casa de Oro to the north, Rancho San Diego to the east and Sweetwater Reservoir to the south. Primary access to the site is provided from the Jamacha Boulevard exit of the South Bay Expressway (State Route 125) approximately three miles to the west and the Sweetwater Springs Boulevard exit of State Route 94, 1.5 miles to the north. Overall, access to the site is fair to good as Jamacha Boulevard provides direct access to the site, but from a more general prospective, the site is far removed from San Diego's primary transportation routes. Developments in the immediate area primarily consist of residential uses, undeveloped land, and limited retail and commercial uses. The site specific characteristics do not necessarily preclude the development of a resort; however the site's location removed from demand generators, area amenities, and primary transportation networks poses a significant challenge.

It is worth noting that if constructed, the proposed resort would be the seventh largest non-gaming hotel in San Diego County in terms of available rooms, only trailing the Grand Hyatt, Marriott Marquis, Hilton Bayfront, Sheraton Harbor Island, Town & Country Resort, and the Hotel Del Coronado. Each of these properties has a superior location, and in the case of Town & Country, it will be reducing its room county by approximately 150 rooms as part of an \$80 million renovation and repositioning of the resort.

It is important to note for this analysis that five-star luxury projects such as the one proposed in the Specific Plan are rare. Of the tens of thousands of hotels in Southern California representing more than 300,000 total hotel rooms, only twelve hotels are currently rated at the five-star level according to Forbes. Further, of these dozen five-star hotels, only the 53-room Rancho Valencia Resort & Spa in Rancho Santa Fe and the 249-room Fairmont Grand Del Mar are located within San Diego County, and both should be noted are surrounded by more affluent communities than the subject site. Even if we were to include hotels rated at the four-star level, only two additional hotels in the County would be classified as luxury properties meeting those standards and would include the 270-room US Grant in downtown and the 170-room Lodge at Torrey Pines located in La Jolla. Using an alternative nationally recognized rating service, AAA lists 15 hotels in Southern California that are honored as five-diamond hotels, of which four hotels are located in San Diego County: the aforementioned Rancho Valencia, Grand Del Mar, Lodge at Torrey Pines, and the 327-room Park Hyatt Aviara Resort. According to AAA representatives, more than 28,000 hotels including resorts, historic inns, B&Bs and more are reviewed each year and just 0.4 percent make the AAA Five Diamond list. Thus by any conceivable measure it is fair to say that "five-star caliber" resorts are very rare indeed and limited to one of a kind locations that offer both an extensive array

of top notch facilities and a wealth of amenities. In general, these five-star San Diego County resorts command average daily rates which typically exceed \$450.00, which would not be achievable at the subject site.

A destination resort is by definition a facility that has the ability to attract demand that might not otherwise visit a certain area. This distinction is important to note because it differentiates a resort hotel from other types of lodging facilities. Guests visiting destination resorts tend to go to a particular market because of the attributes of a specific property located there. The proposed hotel, by virtue of its proposed location, luxury positioning, amenities, and services, was to be classified as a high quality destination resort. As mentioned previously, one of the primary differentiating aspects of the proposed resort was to be a world-class 18-hole championship golf course, which was anticipated to heighten the desirability of the proposed project and serve as an important generator of hotel room night demand.

However, given today's changing market conditions we understand that the proposed golf course will not be constructed. By any measure, participation in the game is down significantly, from a high of 30.6 million golfers in 2003 to 24.7 million in 2014, according to the National Golf Foundation. The long-term trends are also troubling, with the number of golfers ages 18 to 34 showing a 30 percent decline over the last 20 years. Additionally, in 2013, 160 of the country's 14,600 golf facilities closed. The challenges golf faces are myriad, from "millennials" and others lacking the available time for a five-hour round, to an increasingly environmentally conscious public that's reluctant to take up a resource-intensive game. Based on all indications it is unlikely that the popularity and participation levels will rebound in the foreseeable future.

Therefore, we are of the opinion that the subject site is simply not a viable location for the development of a five-star destination resort even if current environmental regulations allowed such development. Access to and visibility of the site are less than desirable. The site is removed from the primary demand generators in the greater San Diego area and lacks the amenities (e.g., a championship golf course that is no longer going to be built, or proximity to local beaches and San Diego bay) that would qualify it as a true destination resort. As such, the proposed resort would be at a competitive disadvantage to other more established resorts in the County and therefore would not likely be able to generate enough income to support the costs associated with the development as proposed, thereby rendering the project to be infeasible.

It has been a pleasure to work with you 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.

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c/o Douglas Wilson Companies  
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Sincerely,

PKF Consulting USA | CBRE Hotels

A handwritten signature in blue ink, appearing to read "Bruce Baltin". The signature is fluid and cursive, with a large initial "B" and a long, sweeping underline.

By Bruce Baltin  
Managing Director



**Bruce Balhin**  
Managing Director

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#### PROFESSIONAL EXPERIENCE

Bruce Balhin is a Managing Director in the Los Angeles office of CBRE Hotels and PKF Consulting USA, a subsidiary of the CBRE Group, Inc. (NYSE:CBG).

In his more than 40 years with PKF Consulting, Mr. Balhin has had a wide diversity of experience in the Hospitality and Tourism industries including market demand studies, valuations, economic and operational consulting and dealing with leases, franchises and management contracts. His industry experience includes hotels, resorts, clubs, restaurants, theme parks, and national and state parks. He has worked extensively with various governmental entities in tourism and hospitality real estate issues. He has frequently been quoted in the national and local press and testified as an expert witness on various industry issues.

Prior to joining PKF Consulting he taught at the University of Nevada, Las Vegas and was corporate operations analyst for the Sheraton Corporation of America. He has taught extensively in the Collins School of Hospitality Management at California Polytechnic Institute, Pomona. He is an Adjunct Associate Professor teaching courses in the Masters of Real Estate Development program at the University of Southern California. He is a member of various professional and community organizations.

#### PROFESSIONAL AFFILIATIONS / ACCREDITATIONS

- International Society of Hospitality Consultants
- American Institute of Certified Public Accountants
- American Hotel-Motel Association
- Urban Land Institute
- Orange County Visitors Association

#### EDUCATION

- Cornell University, Bachelor of Science in Hotel Administration

## **Bruce Baltin** (Continued)

### AREAS OF EXPERTISE

- Economic, financial, and operational analysis and organizational and general consulting for the hospitality and related service industries; economic analysis, market demand studies and development consulting for all phases of the real estate industry; litigation support, general business planning, and valuation

### SIGNIFICANT ASSIGNMENTS

- Market demand studies, financial analysis and consultation to the City of Los Angeles in connection with JW Marriott and the Ritz-Carlton hotels at Los Angeles Live, adjacent to the Los Angeles Convention Center, proposed Wilshire Grand redevelopment and Grand Avenue project
- Asset advisory services relative to operations, market position and management company issues for institutional and other hotel owners
- Representative of Trustee appointed by the Government of Japan in connection with operations oversight, refinancing and disposition of the Kahala Mandarin Hotel in Oahu, Hawaii
- Market demand studies, financial analysis and consultation to the Port of San Diego in connection with the development of the San Diego Bayfront Hilton Hotel adjacent to the San Diego Convention Center, as well as numerous other existing and proposed hotel projects.
- Consultation, analysis and expert testimony relative to management contract issues involving the Kaanapali Beach Hotel, in Maui and Lodge at Koele and Menele Bay Hotels on Lanai, Hawaii
- Market demand analysis, appraisal, development consulting for major resort hotels in Hawaii, California and Arizona
- Market demand studies and development consultation relative to Peninsula Beverly Hills and Montage Hotels in Laguna Beach and Beverly Hills
- Market demand analysis, financial projections and ongoing consultation relative to the repositioning of the Beverly Hilton Hotel
- Consultation services to private companies and public entities relative to the structuring of leases and management contracts for hotels and food and beverage facilities
- Long-term consulting engagements with several municipalities and private sector clients to provide advice on design, financial and management structure for major hotels
- Market demand analysis and development consulting relative to a variety of mixed-use complexes
- Market demand and revenue analysis for the city of Anaheim relative to the development and ongoing planning for the Anaheim Resort Area
- Studies and/or consultation to the cities of Ventura, Newport Beach, Long Beach and others relative to Tourism Development planning
- Ongoing consultation and data collection and interpretation for LA, Inc, The Los Angeles Convention and Visitors Bureau, Anaheim/Orange County Convention and Visitors Bureau, Newport Beach Conference and Visitors Bureau and several other Bureaus
- Consultation to Miami Beach Redevelopment Agency relative to planning guidelines for South Beach
- Tourism revenue enhancement studies for several Southern California municipalities

### PROFESSIONAL ACTIVITIES

- Frequent guest speaker at various industry seminars and conferences
- Adjunct Associate Professor – University of Southern California, School of Policy, Planning and Development – Teaches Course in Hotel Development for the Masters of Real Estate Development Program
- Member of Chancellor's Hospitality Industry Advisory Board – California State University System
- Member of the Executive Committee and former Chair of the Board of Advisors for the Collins College of Hospitality Management at Cal Poly Pomona

### EXPERT TESTIMONY

- Numerous Federal and State Courts