Attachment 7

Peer Review Analysis of the Applicant’s Financial Analysis

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June 15, 2016

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P.O. Box 1609
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Subject: Transmittal of Financial Peer Review, Old Mammoth Place; EPS #161052

Dear Sandra:

Pursuant to a contractual agreement with the Town of Mammoth Lakes, Economic & Planning Systems, Inc. (EPS) has completed a peer review of the Old Mammoth Place (OMP) Project financial analysis prepared by PKF (presently CBRE Hotels), a hospitality industry consulting firm, for the Project Applicant. Our original involvement in the Project (as a consultant to the Town in 2011) included peer review of financial information provided by the Project Applicant as part of the OMP Project's review and approval by the Town. Subsequently, in response to changing market conditions and preferences, the Project Applicant has reconfigured the Project and resubmitted a reconfigured Project to the Town for approval. The requested peer review focuses on the economic motivation for this reconfiguration; i.e., does the reconfiguration contribute to a valuation necessary to attract the necessary investment capital and lending as compared to the original Project.

Our peer review involved: 1) being brought up to date regarding the Project by Town staff and the Project Applicant's representatives, 2) reviewing project documents, including the original Appraisal and financial analysis and clarifying the specific issues to be addressed in the peer review; 3) Reviewing the existing financial analysis and interviewing CBRE Hotels staff as may be necessary to understand data, methods, and conclusions, and requesting additional information necessary to complete the peer review; and 4) preparing this letter summarizing the results of the peer review.

As it turned out, the original Appraisal and financial analysis completed for the Project Applicant in June of 2015 and made available to me under a non-disclosure agreement (which is typical for such efforts) focused on the valuation and feasibility of the reconfigured OMP Project. As a result, as a part of my effort, I interacted with CBRE Hotels staff, specifying the additional analysis needed so I might complete the peer review. CBRE Hotels staff was highly receptive and responsive, preparing the new analysis as I had requested.

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In summary, the reconfiguration of the OMP Project involves an expansion of the “development envelope” (net building area) from the original 362,920 square feet to 482,763 square feet, a roughly 20 percent increase in size, achieved mainly through an increase in a portion of the building’s height. While there has been an increase in the building’s volume and height, the number of hotel bedrooms, at 488, has not changed. Basically, the reconfiguration reflects a market preference (and higher value) for larger lodging units.

As part of this peer review effort I have reviewed the 2015 OMP Appraisal (which evaluated the reconfigured Project) including its technical approach and methods, market assumptions and cost estimates, and the measures used to determine financial returns and feasibility. I have also specified that CBRE Hotels’ staff prepare a parallel analysis of the original Project (as previously approved by the Town) and have received and reviewed this analysis. I offer the following findings:

1) CBRE Hotels is a highly reputable firm in the hospitality industry with vast experience with such appraisals and analysis. Their 2015 OMP Appraisal follows standard methods for such documents including use and documentation of assumptions and data used and presentation of related detailed financial analysis. We have reviewed these assumptions and data and we find them complete and sound for such pro forma financial analysis.

2) Based on EPS’s own practice with the hospitality industry over the years and related knowledge of recent market trends, we can confirm that larger condominium lodging units can confer higher prices (on a value per square foot basis).

3) Independent of CBRE Hotels Appraisal, EPS typically uses a “benchmark” pro forma Internal Rate of Return (IRR) for such projects, in the range of 15 to 20 percent, as a minimum (with the range depending on circumstances). A pro forma analysis indicated return at or above this range is typically necessary to attract necessary investment capital and lending.

4) CBRE Hotels has subjected the original OMP Project to a pro forma financial analysis exactly the same as completed for the reconfigured OMP Project reflected in the 2015 Appraisal. The analysis shows an IRR for the original OMP Project at five (5) percent, well below the level deemed necessary to attract equity or lending commitments and otherwise demonstrate financial feasibility. This compares to an IRR for the reconfigured Project shown in the 2015 Appraisal of just over twenty (20) percent.

Based upon these findings, I confirm that reconfiguration of the OMP Project is necessary to assure that it can be built and be successfully operated in the Mammoth Lakes marketplace. I would be happy to answer any questions that you may have about this peer review effort.

Sincerely,

ECONOMIC & PLANNING SYSTEMS, INC.

Walter F. Kieser
Senior Principal