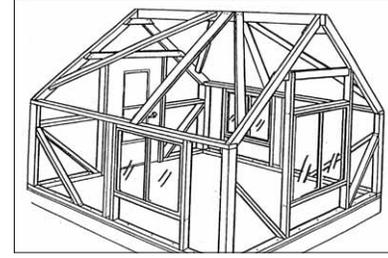


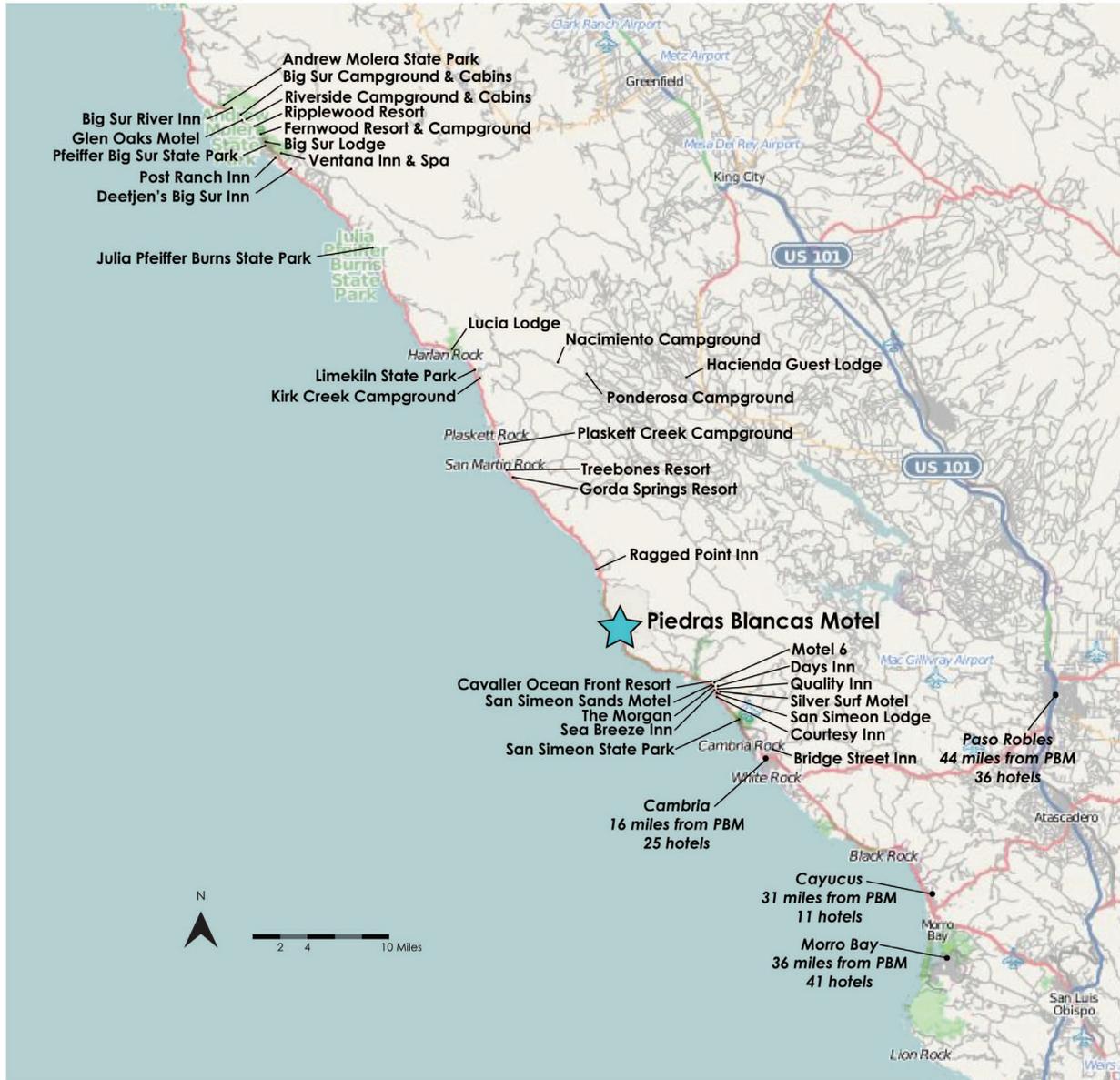
Piedras Blancas Motel

FEASIBILITY STUDY

and Reuse Alternatives: Tent Cabins / Yurts



Map of Market Area



Introduction

This report is a supplement to the August 2010 Piedras Blancas Motel Feasibility Study and Reuse Alternatives report (Report), and assesses the financial feasibility of tent cabins or yurts as part of the overnight visitor serving offering at the Piedras Blancas motel site. The California Coastal Conservancy and State Parks is interested in yurts or tent cabins as an additional option for providing low to moderate cost overnight accommodations on California's Big Sur coast. In the Market Analysis of the Report, an assessment of hotels, tent camping, RV camping, cabins and yurts and hostels in the Big Sur market identified a significant lack of affordable accommodations.

The examination of the financial feasibility of a tent cabin and hostel enterprise is meant to give property owners, property managers, and stakeholders a comprehensive view of options available to meet the objective of providing low cost overnight lodging while maintaining a viable business.

The financial models herein are based on industry standards, data collected from like businesses in the study area, internet and literature research and other informed industry sources.

As of 2004, there were 1,678 lodging facilities in California's coastal counties. Of these facilities only 134 (7.9 percent) are considered low-cost, or under \$100 per night. These generally include campsites, hostels, RV parks, and low cost hotels (California Coastal Commission, 2006).

The Market Area is defined as the approximately 75 miles of coastline between Cambria and Andrew Molera State Park (See Map).

Methodology

In order to present potential financial outcomes for constructing and operating a hostel and tent cabins on the site, income and expense data is used to calculate returns over time in a pro forma. The pro forma is a financial reporting tool that illustrates to investors an estimate of the of return (payback) over time using informed data on the development costs, operating costs, fixed expenses, loan to value ratio (LTV), interest on loans, vacancy rates, and adjustments for inflation. Considering funds that may be available for the project from State sources, the pro formas also demonstrate the financial performance of the enterprises with State contributions of \$500,000 and \$1 million.

LTV is the ratio of the fair market value of an asset compared to the value of the loan.

Using lodging rates from comparable facilities in the study area, a blended median lodging rate for tent cabins was calculated (See Appendix F).

Operating expenses, rental inflation, operating expense inflation, fixed expenses, replacement and reserve expenses, and loan terms were based on industry standards and a similar project less than 60 miles to the south in the Port San Luis Harbor District. These assumptions are included as Appendix G.

Three scenarios are presented to account for potential State funding: 1) no State funding, 2) a \$500,000 contribution and 3) \$1 million contribution. Each scenario uses the "high construction cost" option from the August 2010 report.

- The tent cabin pro forma can be found in Appendix A
- The combined option with no State funding can be found in Appendix B
- The combined option with \$500,000 from the State can be found in Appendix C
- The combined option with \$1 million from the State can be found in Appendix D

Findings

According to the financial pro formas developed for this analysis, within the first year:

- Scenario with no financial input from the State yields a positive Before Tax Cash Flow of \$621,425 (see Appendix B).
- \$500,000 State fund scenario yields a Before Tax Cash Flow of \$657,398 (see Appendix C).
- \$1 million State fund scenario yields a Before Tax Cash Flow of \$693,371 (see Appendix D).

Testing the Model

In order to determine the extent that any one variable affects the final outcome, a sensitivity analysis was conducted (Appendix E). The Food and Agricultural Organization (FAO) established a sensitivity benchmark of a 20% change in a variable to determine if the corresponding change to profitability was dependent or “sensitive” to that variable. In this analysis, each variable was changed by 20%, while all else was held constant, to determine the significance of the variable. Where the change to a variable or an assumption resulted in a corresponding percentage change to the before tax cash flow of more than 20%, the result was said to be very dependent on that variable. Where the change to a variable resulted in a corresponding percentage change to the before tax cash flow of less than 20%, but more than or equal to 5%, the before tax cash flow was said to be somewhat dependent on that variable. Where the change to an assumption resulted in a corresponding percentage change to the before tax cash flow of less than 5%, the before tax cash flow was said to be not very dependent on that variable. The two variables to which before tax cash flow were found to be very sensitive were nightly rent and vacancy rate with 20% changes corresponding to 29% and 25% changes in the before tax cash flows, respectively.

Sensitivity analysis points out to property owners and managers the most effective place to dedicate resources and which areas of the operation may deserve the most detailed oversight and control.

Sensitivity Analysis is the study of how the variation or uncertainty in the output of a mathematical, or in this case financial model, can be apportioned, qualitatively or quantitatively, to different sources of variation in the input. In other words, it is a technique for systematically changing parameters in a model to determine the effects of such changes.

Data Sources

Information on lodging rates, vacancies and construction (grading, surface preparation, construction of bases/foundations, stairs, and pathways) was attained from direct telephone interviews with and internet research on: Crystal Cove Beach Cottages, Pigeon Point Lighthouse, Costanoa Coastal Lodge and Camp, El Capitan Canyon, Tree Bones Resort and Big Basin Tent Cabins, Rainier Yurts, Sweetwater Bungalows. Local firms Caron Architecture and Design, Terra Pacific Builders, and Newline Plumbing Company also assisted with these estimates and commented on the data from other sources.

Information on operating costs was gleaned from a number of sources, including: direct telephone interviews with, Crystal Cove Beach Cottages, Pigeon Point Lighthouse, Costanoa Coastal Lodge and Camp, El Capitan Canyon, Tree Bones Resort and Big Basin Tent Cabins, information found in the November 2005 Piedras Blancas Beach Hostel and Campground Project Summary (Anne Wyatt, Project Development Coordinator). Estimated operating costs were also taken from the June 2009 project in Harbor Terrace (Port San Luis). The project included detailed income and expense data on 25 tent cabin/domes. The August 2010, Piedras Blancas Feasibility Study and Reuse Alternatives report was also an excellent source of information and context on rates, operating costs, soft costs, development costs and vacancies.

Inflation rates were taken directly from the U.S. Bureau of Labor Statistics on CPI. Interest rates and the effects of loan terms were taken from discussions with banks and lending institutions, including Coast National Bank, and Bank of America as well as on line data from Money.CNN, Business Week and others.

Appendix B

	0	1	2	3	4	5	6	7	8	9	10
Combined											
Beds		179									
Rent per month first year		\$167,509									
Vacancy Rate		40%									
Annual Operating Expenses		\$463,423									
Development Costs		\$2,808,000									
Loan Amount		\$1,684,800									
Development Cost per Bed		\$15,687									
Loan to Value Ratio		60%									
Interest APR		6%									
Term in Years		30									
Rent Inflation per year		4%									
Operating Expense Inflation		5%									
OPERATIONS:											
GROSS INCOME		2,010,105	2,090,509	2,174,130	2,261,095	2,351,539	2,445,600	2,543,424	2,645,161	2,750,967	2,861,006
VACANCY LOSS		804,042	836,204	869,652	904,438	940,615	978,240	1,017,370	1,058,064	1,100,387	1,144,402
EFFECTIVE GROSS INCOME		1,206,063	1,254,306	1,304,478	1,356,657	1,410,923	1,467,360	1,526,054	1,587,097	1,650,580	1,716,604
OPERATING EXPENSES		463,423	486,595	510,924	536,471	563,294	591,459	621,032	652,083	684,687	718,922
NET OPERATING INCOME		\$742,640	\$767,711	\$793,553	\$820,186	\$847,629	\$875,901	\$905,023	\$935,013	\$965,893	\$997,682
DEBT SERVICE		121,215	121,215	121,215	121,215	121,215	121,215	121,215	121,215	121,215	121,215
CASH FLOW BEFORE TAXES		\$621,425	\$646,496	\$672,339	\$698,972	\$726,414	\$754,687	\$783,808	\$813,799	\$844,678	\$876,467
INTERNAL RATE OF RETURN BEFORE TAXES											58%

Appendix C

Combined \$500k State Funds

Beds	179																			
Rent per month first year	\$167,509																			
Vacancy Rate	40%																			
Annual Operating Expenses	\$463,423																			
Total Development Costs	\$2,808,000																			
Developer Loan	\$1,684,800																			
State Funds	\$500,000																			
Loan Amount	\$1,184,800																			
Development Cost per Bed	\$15,687																			
Loan to Value Ratio	60%																			
Interest APR	6%																			
Term in Years	30																			
Rent Inflation per year	4%																			
Operating Expense Inflation	5%																			
OPERATIONS:																				
GROSS INCOME		2,010,105	2,090,509	2,174,130	2,261,095	2,351,539	2,445,600	2,543,424	2,645,161	2,750,967	2,861,006									
VACANCY LOSS		804,042	836,204	869,652	904,438	940,615	978,240	1,017,370	1,058,064	1,100,387	1,144,402									
EFFECTIVE GROSS INCOME		1,206,063	1,254,306	1,304,478	1,356,657	1,410,923	1,467,360	1,526,054	1,587,097	1,650,580	1,716,604									
OPERATING EXPENSES		463,423	486,595	510,924	536,471	563,294	591,459	621,032	652,083	684,687	718,922									
NET OPERATING INCOME		\$742,640	\$767,711	\$793,553	\$820,186	\$847,629	\$875,901	\$905,023	\$935,013	\$965,893	\$997,682									
DEBT SERVICE		85,242	85,242	85,242	85,242	85,242	85,242	85,242	85,242	85,242	85,242									
CASH FLOW BEFORE TAXES		\$657,398	\$682,469	\$708,312	\$734,945	\$762,387	\$790,660	\$819,781	\$849,772	\$880,651	\$912,440									
INTERNAL RATE OF RETURN BEFORE TAXES																				

Appendix D

Combined \$1 Million State Funds

	0	1	2	3	4	5	6	7	8	9	10
Beds		179									
Rent per month first year		\$167,509									
Vacancy Rate		40%									
Annual Operating Expenses		\$463,423									
Total Development Costs		\$2,808,000									
Developer Loan		\$1,684,800									
State Funds		\$1,000,000									
Loan Amount		\$684,800									
Development Cost per Bed		\$15,687									
Loan to Value Ratio		60%									
Interest APR		6%									
Term in Years		30									
Rent Inflation per year		4%									
Operating Expense Inflation		5%									
OPERATIONS:											
GROSS INCOME		2,010,105	2,090,509	2,174,130	2,261,095	2,351,539	2,445,600	2,543,424	2,645,161	2,750,967	2,861,006
VACANCY LOSS		804,042	836,204	869,652	904,438	940,615	978,240	1,017,370	1,058,064	1,100,387	1,144,402
EFFECTIVE GROSS INCOME		1,206,063	1,254,306	1,304,478	1,356,657	1,410,923	1,467,360	1,526,054	1,587,097	1,650,580	1,716,604
OPERATING EXPENSES		463,423	486,595	510,924	536,471	563,294	591,459	621,032	652,083	684,687	718,922
NET OPERATING INCOME		\$742,640	\$767,711	\$793,553	\$820,186	\$847,629	\$875,901	\$905,023	\$935,013	\$965,893	\$997,682
DEBT SERVICE		49,269	49,269	49,269	49,269	49,269	49,269	49,269	49,269	49,269	49,269
CASH FLOW BEFORE TAXES		\$693,371	\$718,442	\$744,285	\$770,918	\$798,360	\$826,633	\$855,754	\$885,745	\$916,624	\$948,413
INTERNAL RATE OF RETURN BEFORE TAXES											65%

Appendix E

Sensitivity Analysis	
Variable	Dependency*
Development Cost/Unit	not very dependent (20% increase corresponded to 2% decrease Before Tax Cash Flow)
Nightly Rent:	very dependent (20% decrease corresponded to 29% decrease Before Tax Cash Flow)
Rent Inflation:	somewhat dependent (20% decrease corresponded to 7% decrease Before Tax Cash Flow)
Operating Exp.	somewhat dependent (20% increase corresponded to 7% decrease Before Tax Cash Flow)
Operating Exp. Inflation/yr:	not very dependent (20% increase corresponded to less than 2% decrease in Before Tax Cash Flow)
Fixed Expenses:	not very dependent (20% increase corresponded to a 2% decrease in Before Tax Cash Flow)
Replacement and Reserves:	not very dependent (20% increase corresponded to a 1% decrease in Before Tax Cash Flow)
Loan Term (years):	not very dependent (20% reduction corresponded to a 1% decrease in Before Tax Cash Flow)
Interest Rate:	not very dependent (20% increase corresponded to about a 1% decrease in Before Tax Cash Flow)
Loan to Value Ratio:	not very dependent (20% increase corresponded to a 2% decrease in Before Tax Cash Flow)
Vacancy Rate:	very dependent (20% increase corresponded to a 25% decrease in Before Tax Cash Flow)

*Corresponding percentages are rounded to the nearest percent.

Appendix F

Tent Cabin Rate Calculator		
	Private Room Rate/Person (Double Occupancy)	
Facility	Lowest	Highest
Crystal Cove Beach Cottages	62.50	79.10
Pigeon Point Lighthouse Hostel	26.00	39.50
Costanoa Coastal Lodge and Camp	40.50	44.50
El Capitan Canyon	77.50	147.50
TreeBones Resort	37.50	115.00
Big Basin Tent Cabins (NOT COASTAL)	41.25	41.25
Median / Person	\$40.88	\$61.80
Average / Person	\$47.54	\$77.81
Standard Deviation	18.84	45.07
Median / Room for two	\$81.75	\$123.60
Average Room Rate		\$102.68

Appendix G

General Assumptions	
Appreciation of rents	4%
Appreciation of operating expenses	5%
Average Rate per Bed	27
Vacancy Rate	40%
Loan to Value ratio	60%
Interest APR/CP	6%
Term in Years	30
State in-lieu fee funds (Low)	\$500,000
State in-lieu fee funds (High)	\$1,000,000
Hostel Assumptions	
Number of Units	15
Number of Beds	74
Nightly rate per bed	\$27
Total Operating Expenses Year 1	\$278,500
Development Cost Per Unit	\$131,200
Total Development Cost	\$1,968,000
Tent Cabin Assumptions	
Total Units	35
Nightly rate per unit	\$103
Total Beds	105
Beds Per Unit	3
Nightly rate per bed	\$34
Operating Expenses Year 1	\$107,301
Additional Operating Expenses Year 1	\$77,622
Total Operating Expenses Year 1	\$184,923
Development Cost Per Unit	\$24,000
Total Development Cost	\$840,000

