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PRINCIPALS:

DAVID FRATTONE  
FRED GRAYLEE  
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March 3, 2017

The Honorable Scott Matas  
Mayor of Desert Hot Springs  
CITY OF DESERT HOT SPRINGS  
65-950 Pierson Boulevard  
Desert Hot Springs, CA 92240

Members of the Desert Hot Springs City Council  
CITY OF DESERT HOT SPRINGS  
65-950 Pierson Boulevard  
Desert Hot Springs, CA 92240

Subject: **I-10 Corridor Study  
Desert Land Ventures III LLC Mixed Use Development Proposal –  
Specific Plan & Vesting Tentative Tract Map No. 37185**

Dear Mayor Matas and Members of the City Council:

On behalf of Desert Land Ventures III LLC ("DLV"), owner of that property which is the subject of the Desert Land Ventures Project (Assessor Parcel Numbers 669-150-001 and 669-150-002) ("DLV Property"), as identified on the February 21, 2017 Report to the City Council, Hunsaker & Associates Irvine, Inc. is providing this letter respectfully requesting that the City Council consider specifically exempting the approximate 123.4-acre DLV Property from any future moratorium on Medical Marijuana and/or Adult-use Marijuana Facilities (Marijuana Facilities) prior to, or as part of, any future I-10 Corridor Study. As you may be aware, DLV submitted entitlement applications with associated fees, plans and technical reports on August 25, 2016, following several years of planning and collaboration with City of Desert Hot Springs ("City") staff, for the development of a mixed-use business park with marijuana facilities, industrial, commercial, highway oriented retail and hospitality components to be implemented through a specific plan ("DLV Specific Plan").

Since our submittal, DLV has been cooperatively engaged with City staff to process the project through the development review and California Environmental Quality Act ("CEQA") processes. These processes involved committing several hundred thousands of dollars in consultant fees to provide the necessary documents and design details, and respond to questions and information requests, needed for the project's entitlements. In our meetings, discussions and correspondence, City staff never indicated that the proposed mixed-use development and associated land uses would be inconsistent with the City's vision and planning documents for the I-10 corridor. On the contrary, we believe the proposed project implements the City's goals and policies as detailed in the Desert Hot Springs General Plan by providing a high quality mixed-use business park with a variety of uses that will facilitate future development in the I-10 corridor, will serve as a significant source of revenue, and will provide numerous employment opportunities.



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DLV strongly believes that the proposed project is consistent with not only the vision for the City overall, as evidenced by the General Plan and existing development, but also with the City Council's goals for development along I-10.<sup>1</sup> As discussed below, the proposed project would facilitate achievement of that vision and, because the project includes a specific plan, would allow the City Council to meaningfully review and consider the development and uses permitted by the project.

The following points support DLV's requested exemption of the proposed project from any potential moratorium:

1. Specific Plan Zoning – The proposed DLV Specific Plan provides the City with the following tools to help shape and regulate development in this unique setting, which is consistent with apparent goals of the I-10 Corridor Study:
  - Permitting a variety of land uses including industrial, commercial, highway-oriented retail, restaurants and hotels to adjust and respond to ever changing market demands.
  - Imposing Design Guidelines to ensure high quality site and architectural design, lighting, signage, public art, landscape and sustainable designs.
  - Creating a Land Use Plan that prioritizes highway-oriented uses and signage along the property's I-10 frontage.
2. Encourage Investment – Including the proposed project in a moratorium would discourage continued investment interest in Desert Hot Springs by DLV and other land developers just as such investment is on the upswing after the approval of Proposition 64 in November 2016. Marijuana Facilities are a significant source of future revenue for the City that could fund infrastructure and other improvements greatly needed in the I-10 corridor. By improving services and infrastructure in the I-10 corridor, the viability of further development increases by reducing up-front development costs for infrastructure which would attract larger projects with significant retailers and businesses.
3. Market Demands – In September 2015, PKF, the nation's leading firm for hotel market analysis, prepared a report studying the DLV site to determine the potential for a hotel use based on market conditions in Desert Hot Springs and the greater Coachella Valley. The study found that, due to the site's location and lack of critical mass in nearby places of interest and population, as well as the availability of existing, better hospitality options along I-10 in the Coachella Valley, the site is, as it exists today, not conducive for a hotel use. However, when coupled with additional uses that would attract patronage to the area, such as commercial and industrial uses, a hotel becomes a more viable option at the site. Marijuana Facilities, as a burgeoning industrial use that generates employment and investment, would help open the door to other complimentary commercial and service uses such as hotels and restaurants. Additionally,

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<sup>1</sup> The February 21, 2017 Report to the City Council regarding the I-10 Corridor Study suggests that the corridor is viewed as a "gateway to the City" and should be developed with a mixture of uses, including commercial uses (i.e. hotels, eating establishments, truck stops, and rest areas).





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these complimentary commercial/service uses would be further supported by the site's location along I-10.

4. Good-Faith Reliance – DLV has invested significant resources, and worked closely with City officials and staff, since its application was first submitted to the City on August 25, 2016. To change the rules now would adversely impact DLV, which has relied in good-faith on existing zoning and regulations when making such investment.
5. Open Space and Infrastructure – The proposed DLV Specific Plan would preserve a significant amount of open space (38.7 acres) consistent with the Coachella Valley Multiple Species Habitat Conservation Plan. Of the property's 123.4 acres only approximately 47.1 acres will be developable with the other areas consisting of required infrastructure for circulation, flood control, utility easements, water/sewer services and open space.
6. City's Future Review Authority – Finally, the City Council will have multiple opportunities to review the DLV Specific Plan in the coming months, even absent the moratorium. This plan includes the ability to relocate/redesign proposed uses, or impose conditions, prior to approval. Moreover, even after approval of the DLV Specific Plan, the City will again have the opportunity to specifically review proposed development projects, plans and activities in accordance with the procedures and processes contained in the City's Zoning Ordinance.

Thank you for your consideration of our request to specifically exempt the DLV Property/project from any potential moratorium for Marijuana Facilities prior to, or as part of, any future I-10 Corridor Study. I look forward to participating in the discussion at the City Council hearing on March 7, 2017. I can be reached at my direct phone number (949) 768-2541 or by email to [tfrattone@hunsaker.com](mailto:tfrattone@hunsaker.com) if you would like to discuss our request further.

Sincerely,

HUNSAKER & ASSOCIATES IRVINE, INC.

A handwritten signature in blue ink, reading 'Ted D. Frattone'.

Ted D. Frattone  
Project Manager, Planning & Entitlements

TF:tl

Attachments:

1. Project Description Letter dated August 25, 2016
2. DLV Land Use Plan
3. PKF Hotel Market Analysis for DLV Property in Desert Hot Springs

CC: Charles Maynard, City Manager  
Jennifer Mizrahi, City Attorney  
Jerryl Soriano, City Clerk  
Daniel Porras, P.E., Acting Community Development Director  
Scott Taschner, Associate Planner  
Richard Lee Sax, Desert Land Ventures III LLC  
Sean Matsler, Manatt, Phelps & Phillips, LLP

W.O. 3530-3X (f:\cwo\3530\3X L01-tf.docx)



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August 25, 2016

Mr. Nathan Bouvet, MPA  
Community Development Director  
CITY OF DESERT HOT SPRINGS  
65950 Pierson Boulevard  
Desert Hot Springs, CA 92240

Subject: **1<sup>st</sup> Submittal - Vesting Tentative Tract Map No. 37185 & Specific Plan Applications for Desert Land Ventures III LLC Desert Hot Springs, CA**

On behalf of the property owner, Desert Land Ventures III LLC, Hunsaker & Associate Irvine, Inc. are submitting for the City of Desert Hot Springs review and approval the Vesting Tentative Tract Map and Specific Plan applications for the proposed subdivision and mixed-use (industrial and commercial) development of the 123.4-acre project site. The project site is generally located north of the Interstate 10 Freeway and approximately 2,800 feet west of the intersection of Palm Drive and Varner Road in the City of Desert Hot Springs.

### Existing Site Conditions

The approximate 123.4-acre project site is bound to the south by Interstate 10 Freeway and two existing single-family residences (near the southeast corner); to the west by Mission Creek; to the north by the Willow Hole Conservation Area created as part of the Coachella Valley Multiple Species Habitat Conservation Plan (CVMSHCP); and to the east by vacant land (Parcels 1 and 2 of Parcel Map No. 15882). The site's topography is generally flat, sloping to the southeast, with elevations ranging from 666 feet (in the north) and 622 feet (in the southeast) above mean seal level. On-site vegetation consists mainly of Sonoran Creosote Brush Scrub in areas not disturbed by existing dirt roads. Varner Road bisects the project site, as the road extends west from Palm Drive to its existing terminus near Mission Creek, creating the property's north (approximately 37.3 acres) and south (approximately 86.1 acres) parcels. Within the property's south parcel, two existing 30-inch diameter gas transmission main lines traverse the site in an east-west alignment as well as existing power lines and poles along the Varner Road and Interstate 10 Freeway frontages. The property's north parcel is located completely within the Willow Hole Conservation Area of the CVMSHCP. A small portion of the property's south parcel at its westerly tip is also located within the Willow Hole Conservation Area. Combined together, approximately 40.3 acres of the project site is located within the Willow Hole Conservation Area. As currently mapped by the Federal Emergency Management Agency (FEMA), the entire project site is located within the 100-year flood plain with no base flood elevations determined, receiving flows from the Mission Creek and Big Morongo Wash watersheds.





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Community Development Director  
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### **Proposed Project**

The project will consist of a Vesting Tentative Tract Map 37185 for condominium purposes and Specific Plan for the phased development of an industrial business park with highway oriented retail and hospitality mixed use components. The Specific Plan's development areas will be created by mass graded pads and served by backbone infrastructure for utilities, circulation, on-site drainage and regional flood conveyance. The proposed development and land uses have been guided by the City's preferred Land Use Map for the project area per the pending General Plan update as well as established planning and economic development principles for the Palm Boulevard Corridor and I-10 Community Annexation areas.

### **Land Uses**

The project's development area is located in the property's south parcel (south of Varner Road) and is envisioned as a master planned, industrial business park to house a combination of industrial warehouses and businesses to support the City of Desert Hot Springs growing medical marijuana industry, providing space to locate dispensaries and cultivation facilities, as well as other more traditional light industrial uses, such as regional warehouse distribution centers and green energy technology businesses. This variety of industrial uses will be integrated together in a unique and complimentary environment created by the project's Specific Plan. In addition, a mixed-use component is permitted in the southern and eastern portions of the main development area, which allows highway oriented commercial and hospitality uses to be developed to help capture and utilize the site's Interstate 10 Freeway frontage and exposure to thousands of travelers. Moreover, the mixed use component will also support the workers and visitors of the industrial business park.

### **Open Space**

The property's north parcel (north of Varner Road) will consist exclusively of open space, with approximately 35.6 acres to be dedicated for conservation as part of the CVMSHCP's Willow Hole Conservation Area. Additionally, an approximate 3.1-acre portion of the south parcel's western tip will be preserved as open space, as it is also within the limits of the Willow Hole Conservation Area. Together, approximately 38.7 acres of open space will be preserved and dedicated as part of the CVMSHCP Willow Hole Conservation Area (96% of the property's land designated within the Willow Hole Conservation Area) with the proposed project's implementation.

### **Circulation**

Primary access to the project site is provided at four entries off of Varner Road from Palm Drive with secondary access off of West Street via a future off-site connection to Thornton Road from Palm Drive. On-site access roads consist of a main east-west spine road (Mihalyo Road) that extends from West Drive to Varner Road and provides access to all five development pads (Lots 1 - 5), two north-south Secondary Roads ("B" Street and "C" Street) connecting Varner Road to the



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main spine road and two north-south Local Collector Roads ("A" Street and West Drive) at the west and east ends of the site, also connecting the main spine road (Mihalyo Road) to Varner Road. The road widths in the street system have taking into consideration large truck turning movements required to serve the industrial and commercial uses. Driveways from the on-site street system provide access to the development pads, with many of the development pads having multiple driveways to evenly distribute circulation. Together the proposed site design and street layout provides excellent circulation with well distributed roads and connectivity to existing and planned streets to accommodate vehicular travel to all development pads.

For pedestrian circulation, sidewalks will be provided along all proposed streets. However, when a street abuts vacant land or proposed open space conservation areas, the sidewalk will only be located on the side of the street adjacent to the development pad (south side of Varner Road, west side of West Drive and east side of "A" Street). In addition to sidewalks, large landscaped parkways will run along most of the project's streets to provide storm water/flood conveyance corridors including infiltration basins and swales for the site's drainage. The parkway swale and basin areas will be aesthetically pleasing with appropriate planting and rock treatments to accommodate the drainage flows while enhancing the development's landscape program.

### **Grading & Drainage**

The project's grading design creates five elevated building pads for development which are served by a recessed street system. The recessed street system also functions as flood conveyance corridors through the project site, to convey drainage in the 100-year flood event from the tributary Mission Creek and Big Morongo Wash watersheds, to the north, while protecting the building pads from flooding. The street system's landscape parkways and roads combine together to provide the necessary capacity to convey the 100-year storm event through the project site without impacting upstream or downstream properties.

In addition to conveying the regional storm events through the project site, the large landscaped parkways along the streets will also include infiltration basins and drainage swales to retain 100 percent of the on-site development flows up to the 100-year storm event. The building pads have been designed to sheet flow surface drainage to inlets that will convey all of the pad's runoff to one of the site's nine infiltration basins for retention. Benefits of the project's on-site drainage system with 100 percent retention of on-site development flows, are as follows:

- Helps recharge the region's aquifer by providing a consistent drainage source for runoff infiltration.
- Provides water quality treatment of all on-site development runoff.
- Relieves the burden on downstream drainage facilities by retaining all on-site development runoff as opposed to discharging into downstream drainage facilities.





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In order to create the proposed grading design with the elevated development pads, approximately 121,050 cubic yards of import dirt (along with the movement of approximately 176,360 cubic yards of on-site material) will be required for the project's grading operation. The source of the import dirt material will be either local suppliers in the project vicinity or from Desert Land Ventures III LLC's approximate 284.9-acre property just south of the project site, beyond the I-10 Freeway, in Palm Springs.

### **Utilities**

The summary below provides information regarding how the proposed project will provide its utility services.

**Gas** service will be extended to the project site via Varner Road from existing facilities in Palm Drive. The project design will also preserve the two 30-inch diameter gas transmission main lines that traverse the site in an east-west alignment along the southern parkway of proposed Mihalyo Road.

**Electric** service will be provided to the project by connection to the existing overhead 12 KV, 33 KV and 115 KV power lines and poles along the site's Varner Road and Interstate 10 Freeway frontages.

**Water** service (domestic and fire water supply) will be provided for the project as part of the development's backbone infrastructure improvements with a private on-site water well (Lot 7) and reservoir site (Lot 6) to serve all of the development pads. Please note the property is located within Coachella Valley Water District's service area, however no existing or planned water facilities are located near the project site for potential connection.

**Sewer** service will be provided by an on-site decentralized package wastewater treatment plant as part of the project's backbone infrastructure improvements. The effluent from the treatment plant could be used as part of the project's irrigation system for the landscape common areas and road parkways. Please note the property is located within Coachella Valley Water District's service area, however no existing or planned sanitary sewer facilities are located near the project site for potential connection.

### **Flood Hazard Mitigation**

As previously mentioned in the Existing Conditions section, the entire project site is located within the 100-year flood plain with no base flood elevations determined as currently mapped by FEMA, receiving flows from the Mission Creek and Big Morongo Wash watersheds. The project's design will mitigate the property's flood hazard potential as detailed in the Grading & Drainage section by raising the development area building pads and using the recessed street system to convey drainage in the 100-year flood event through the project site without impacting upstream or downstream properties. A Flood Hazard Analysis report will be prepared for the project as part of its California Environmental Quality Act (CEQA) process, to analyze and document the property's existing flood hazard potential



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and identify the necessary mitigation measures and design features to allow for development per FEMA and City of Desert Hot Springs regulations.

### **Phasing**

The proposed Vesting Tentative Tract Map No. 37185 and Specific Plan applications are part of project's long term vision and plan for the orderly development of the property to be implemented in several project and construction phases. As a result of the number of development constraints which affect the property and the ever changing environment of market and regulatory conditions, development of the project site is a dynamic process, subject to several variables which can affect the project schedule and implementation. However, noting the potential for possible issues which may alter the project's course and implementation, the following is a general summary of the project's anticipated phasing (subject to change).

Phase	Description
Phase 1	Project Entitlements
Phase 2	Final Mapping, Final Engineering for Mass/Rough Grading, Backbone Improvements and FEMA CLOMR Processing
Phase 3	Implementation of Mass/Rough Grading and Backbone Improvements
Phase 4	Sale/Development of Industrial Business Park Development Pads
Phase 5	Sale/Development of Mixed Use Development Pads

### **Requested Entitlements**

Listed below are the project entitlements requested as part of the proposed development.

**General Plan Amendment** to change the land use designations for the project site from Rural Desert (RD) and Light Industrial (LI) to Light Industrial (LI), Commercial Retail (CR) and Private Open Space (OS/PV) be consistent with the proposed Specific Plan's land uses.

**Zoning Map Amendment** to revise the project site's zoning from Rural Desert (RD) and Light Industrial (LI) to Specific Plan.

**Specific Plan** to provide a planning document to implement the goals and policies of the General Plan and guide for the orderly development of the project site including regulations for land use, conservation, circulation, infrastructure, development standards, design guidelines and implementation measures to create a light industrial business park with highway oriented commercial and hospitality components.

**Vesting Tentative Tract Map No. 37185 for Condominium Purposes** to subdivide the project site, creating lots (and the ability to further subdivide the property with condominium air space) for the proposed development and open





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space areas as well as establish the preliminary design for the required backbone infrastructure and grading to serve the development.

**Development Agreement** to memorialize the project's terms, conditions and obligations and provide vesting development rights for all of the project components, public improvements and associated benefits to the City of Desert Hot Springs and developer/property owner.

### **CEQA**

Based on prior discussions and meetings with City staff it is anticipated that an Initial Study and Mitigated Negative Declaration (MND) with accompanying technical studies will be required for the proposed project's CEQA analysis and compliance.

### **Submittal Package**

Included in the project's submittal package are the following items per the City of Desert Hot Springs Tentative Tract Map and Specific Plan Submittal Requirements.

1. Completed Tentative Tract Map Application
2. Completed Specific Plan Approval Application
3. Planning Department Deposit - \$26,355.00
  - Tentative Tract Map (1-15 lots) - \$6,640
  - Environmental Determination - \$180
  - General Plan Amendment (Minor) - \$4,305
  - Zone Change to Zoning Map with a General Plan Amendment - \$3,230
  - Specific Plan Deposit (Greater than 40 acres) - \$12,000
4. Completed Environmental Information Form
  - Aerial Exhibit
  - Site Photographs
  - U.S. Geological Survey Quadrangle Map Exhibit
5. Public Notification Package
6. Preliminary Title Report
7. Vesting Tentative Tract Map No. 37185 – 25 copies folded to 8 ½" x 11" and 1 reduced copy 11" x 17"



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8. Hydrology Analysis dated 8/22/2016 – 3 Copies
9. Water and Wastewater Report dated August 2016 – 3 Copies
10. Site Photographs
11. CD with Electronic Copies (PDF format) of all items in Submittal Package

In addition to the items listed above the following items will follow under separate cover to complete the project's submittal package.

1. Preliminary Water Quality Management Plan
2. Draft Specific Plan
3. Draft Development Agreement
4. Flood Hazard Analysis Report

Thank you for your consideration of the Vesting Tentative Tract Map and Specific Plan applications for the Desert Land Ventures III LLC property. We look forward to working with the City of Desert Hot Springs on this exciting project. If you have any questions regarding the submittal package or need additional information please give me a call at (949) 768-2541 or email to [tfrattone@hunsaker.com](mailto:tfrattone@hunsaker.com).

Sincerely,

HUNSAKER & ASSOCIATES IRVINE, INC.

A handwritten signature in blue ink, reading 'Ted D. Frattone'.

Ted D. Frattone  
Project Manager, Planning & Entitlements

TF:ca

xc: Richard Lee Sax, Desert Land Ventures III LLC

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(f:\cwo\3530\3 L01-tf.docx)



Figure 3-1 Specific Plan Land Use Plan



September 11, 2015



Mr. Richard Lee Sax  
President  
Desert Land Ventures III, LLC  
2100 Palomar Airport Road, Suite 209  
Carlsbad, California 92011

Dear Mr. Sax:

Pursuant to our engagement, we have conducted a study of the projected future market performance of a proposed hotel to be located in the City of Desert Hot Springs, in Riverside County, California.

The conclusions set forth in this report are based on an analysis of the existing and potential future supply and demand for the competitive lodging market. Examination and analysis in our conclusions was based on the completion of our research in September 2015. This letter has been prepared for your internal use for project evaluation purposes.

As in all studies of this type, the estimated results are based on competent and efficient management and presume no significant change in the status of the competitive lodging industry from that set forth in this report. The terms of this engagement are such that we have no obligation to revise this report to reflect events or conditions, which occur subsequent to the date of completion of our research. However, we are available to discuss the necessity for revision in view of changes in the economy or market factors affecting the hotel industry. This report is presented subject to the attached statement of assumptions and limiting conditions.

The methodology used in conducting our study included an analysis of the site location with regards to access, visibility, surrounding land uses and area amenities. We also conducted interviews with city personnel, hoteliers, and members of the business community in the greater Palm Springs area to determine if appropriate levels of demand generators currently exist or will exist for the proposed property. In addition, we gathered information relative to any hotels that may be in the planning or development stage at this point in time which may be competitive to the proposed subject.

We coupled this information with conversations with operators of potentially competitive lodging facilities and persons familiar with development patterns in the City of Desert Hot Springs, and the Coachella Valley. This immersion has better allowed us to understand the relevant dynamics and provide a more complete picture of the market area in order to ascertain whether the overall economic environment appears to be suitable for additional



hotel development. This above-mentioned research process has allowed us to ascertain future growth in demand for, and the supply of lodging facilities in the proposed market.

At this time, we do not recommend that you proceed with the development of a hotel at the proposed site in Desert Hot Springs, California. This determination is based upon a host of factors, primarily the site location and lack of demand for additional hotel rooms in consideration of the existing supply.

## ANALYSIS OF SITE LOCATION AND LOCAL AREA

The proposed subject site consists of a portion of land north of the Interstate 10 Freeway, west of Palm Drive. The adjacent parcels to the east are zoned for commercial development, with the most likely use being office space or a business campus. The multiple ownership interests involved in the adjacent development site have expressed a desire to develop but no definitive plans for future development have been made. The subject site encompasses 87 acres with approximately 53 usable acres available after accounting for particular flood plain constraints on the land. It is our belief that in order to be a viable hotel site, the development should be built out with demand drivers that will feed hotel demand. We have therefore described the site as part of a proposed mixed-use development.

### LOCATION AND SITE ENVIRONS

The hotel site is located on the southwestern portion of the mixed-use project, bordering the Interstate 10 Freeway to the south. It should be noted that the surrounding uses are based on a proposed mixed-use plan that would help to generate hotel demand. Uses immediately surrounding the site include:

- North:** The subject site will be bounded to the north by retail space, followed by a technology park fronted by Varner Road. Two miles north on Palm Drive is the Desert Dunes Golf Club followed by the city of Desert Hot Springs roughly three miles further north.
- South:** The subject is bounded to the south by the Interstate 10 Freeway. Travelling further south along Palm Drive, which turns into Gene Autry Trail, provides access to North Palm Springs roughly six miles south.
- East:** The subject will be bounded to the east by creative retail space and restaurants. Further east along the 10 Freeway is the Agua Caliente Resort and Spa adjacent to the city of Thousand Palms.
- West:** The subject will be bounded to the west by a technology park and office space as well as a small road providing access to the hotel. Further to the west is the California state route 111, Mt. San Jacinto and the adjacent Mt. San Jacinto State Park.

## ACCESS AND VISIBILITY

Primary access to the site will be provided from automobiles. Overall, the subject site has a good location relative to transportation networks, but is dependent on the development of businesses and leisure attractions in the surrounding complex. Located proximate to the Interstate 10 Freeway, but approximately seven miles from downtown Palm Springs, six miles from Palm Springs International Airport as well as five miles from the heart of Desert Hot Springs, the subject site is not ideally positioned in order to capture leisure and commercial demand in the Palm Springs area because the immediate surrounding area lacks demand generators and is therefore not conducive to hotel development.

Although the subject site is located near an interstate exit, there are no immediate demand generators near the proposed site. Further, there are a number of established hotels, such as the Hampton Inn and Homewood Suites hotels in Palm Desert, with better access and similar visibility along Interstate 10, primarily for westbound travelers from Arizona along the I-10 freeway. Additionally, eastbound travelers from the Los Angeles area would likely take advantage of better positioned properties in downtown Palm Springs that are closer to area amenities.

Given the hotel's location alongside the freeway, the subject will enjoy excellent visibility from major arterials due to the lack of major development nearby, but poor accessibility. Positioned within the proposed mixed-use development, the subject hotel will not enjoy easy access via Palm Drive, as travelers will have to make their way across the entire site prior to arriving at the entrance to the subject hotel, accessible via a small road.

## SITE CONCLUSIONS

The site is not well positioned relative to traditional Coachella Valley demand generators. Historically, this market has demonstrated strong demand for transient business, with a relatively strong group sector in the peak months related to convention center business and incentive corporate retreats. Taking into account the subject hotel's distance from traditional demand generators, it is pivotal that the proposed development incorporates creative retail and dining options in addition to attracting commercial tenants for the proposed office space. The subject hotel will rely on demand drivers within the proposed site, which should add to the property's ability to attract hotel guests primarily in the corporate and group sectors.

## LOCAL AREA ANALYSIS

The desert has historically focused on capturing its transient base and maintaining its group market. The Coachella Valley is primarily a tourism-based economy, which generates most of its group demand from self-contained resorts with meeting space and the Palm Springs Convention Center located in Downtown Palm Springs. It is our belief that the subject site will not support a resort hotel of this sort. Hotel demand generators in the greater Palm Springs area include the following:



- Much of the demand for hotels in the Coachella Valley is generated by individual hotels hosting group functions, or offering “get-a-way” packages to individual leisure travelers.
- Hotels located in downtown Palm Springs benefit from their proximity to the Palm Springs Convention Center, and the historical downtown village, which features various restaurants and retail, including an array of recreational activities available due to the area’s desirable climate.
- Demand generators for leisure travelers in the Greater Palm Spring area include golf, various festivals, and the desirable climate during certain months of the year.
- The bulk of the offseason transient business is made up of weekend leisure travelers from Los Angeles looking to take advantage of restaurant and nightlife, as well as seasonal pool parties during the summer months

The subject site is not particularly well located relative to the demand generators in the Greater Palm Springs market. Additionally, the City of Desert Hot Springs does not possess a major industry that generates significant commercial demand for the area. In addition, there is no significant leisure or group demand in the area aside from leisure visitors looking to partake in the local spa resorts developed around natural mineral springs. Below is a snapshot of the transient occupancy tax collected from each city in the Coachella Valley from 2005 through 2014, for fiscal years ending June 30th, the most recent comprehensive data available. It is worth noting that the historical TOT data in the table below presents an accurate picture of increasing room revenues throughout the Coachella Valley’s primary cities.

Coachella Valley Transient Occupancy Tax (Amounts in \$000)											
City	Rate	2006	2007	2008	2009	2010	2011	2012	2013	2014	CAAG
Cathedral City	12.0%	\$1,426	\$1,575	\$1,632	\$1,150	\$1,023	\$999	\$1,136	\$1,114	\$1,883	3.5%
Desert Hot Springs	10.0	905	969	984	934	892	1,090	1,089	1,220	1,314	4.7
Indian Wells	11.3*	5,353	5,940	5,874	4,805	4,294	4,802	5,690	6,342	6,400	2.3
Indio	13.0*	1,331	1,818	2,070	1,941	1,845	1,945	2,547	2,820	3,078	11.0
La Quinta	11.0	5,437	5,448	5,327	4,481	4,265	4,738	5,447	7,833	8,787	6.2
Palm Desert	9.0	8,133	8,620	8,603	7,030	6,848	7,422	8,085	9,189	10,060	2.7
Palm Springs	12.5	14,683	14,521	13,924	12,753	13,371	15,731	17,874	19,385	22,249	5.3
Rancho Mirage	10.0	5,775	5,177	5,157	4,634	3,893	4,302	4,291	4,486	6,083	0.6
Total		\$43,043	\$44,068	\$43,571	\$37,728	\$36,431	\$41,029	\$46,159	\$52,323	\$59,854	4.2%

\*During FY 2011/12, the TOT rate increased from 9.3% to 11.3% in Indian Wells and from 10% to 13% during FY2013/14 in Indio

Source: City Annual Financial Reports

The table above highlights Desert Hot Springs as the lowest producer of TOT revenue in the region, and exhibiting growth near the middle of the range on a compound annual average growth rate. Taking into account the subject hotel’s distance from traditional demand generators and the lack of local demand generators in the Desert Hot Springs

market, it is pivotal that the proposed development incorporates creative retail and dining options in addition to attracting commercial tenants for the proposed office space. The subject hotel will have to rely on demand drivers within the proposed site, which should add to the property's ability to attract hotel guests primarily in the corporate and group sectors.

## COMPETITIVE MARKET ANALYSIS

Three potentially competitive hotels are located approximately seven miles southwest of the subject site in downtown Palm Springs, including the Hyatt, Hilton, and Courtyard Palm Springs. Another cluster of potentially competitive properties are located approximately twelve miles southeast of the subject site in Palm Desert and Rancho Mirage, while the remaining hotels are roughly 20 miles southeast in neighboring La Quinta. These hotels are all located closer to area demand generators, some closer to major highway and interstate exits, and are not as remote as the subject site. Below is a complete list of the competitive set of nine hotels.

Competitive Supply		
Map Code	Property	Number of Rooms
1	Hyatt Palm Springs	197
2	Hilton Palm Springs	257
3	Courtyard Palm Springs	149
4	Courtyard Palm Desert	151
5	Hampton Inn and Suites Palm Desert	88
6	Embassy Suites La Quinta Resort	160
7	Embassy Suites Palm Desert	198
8	Homewood Suites La Quinta	129
9	Hilton Garden Inn Rancho Mirage	120
<b>Total Competitive Supply</b>		<b>1,449</b>

The following table shows the historical performance of the competitive set of nine hotels from 2010 to 2014 and year-to-date July 2014 and 2015.

Historical Market Performance of the Competitive Supply									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2010	528,885	N/A	279,851	N/A	52.9%	\$114.69	N/A	\$60.69	N/A
2011	528,885	0.0%	316,478	13.1%	59.8	119.60	4.3%	71.57	17.9%
2012	528,885	0.0	327,341	3.4	61.9	123.48	3.2	76.43	6.8
2013	528,885	0.0	333,913	2.0	63.1	127.45	3.2	80.47	5.3
2014	528,885	0.0	354,463	6.2	67.0	135.72	6.5	90.96	13.0
CAAG	0.0%		6.1%			4.3%		10.6%	
7/14 YTD	308,425	N/A	220,982	N/A	71.6%	\$146.86	N/A	\$105.22	N/A
7/15 YTD	308,425	0.0%	225,090	1.9%	73.0%	152.40	3.8%	111.23	5.7%

Source: PKF Consulting USA

Supply has remained constant over the last five years while occupied rooms have averaged a 6.1 percent annual increase in the competitive market over the five-year period. Occupancy has steadily recovered after the economic slowdown. Occupancy has steadily grown since 2010 with 2014 exhibiting a five-year high of 67.0 percent; however the

market is steadily approaching capacity, and we do not anticipate continued occupancy growth.

Average daily rate in this competitive market has increased annually by 4.3 percent. In 2010, the market experienced ADR growth of 4.3 percent, and between 2011 and 2013 the market grew at roughly three percent. The largest jump in average daily rate occurred in 2014 as rate grew to \$135.72, an increase of 6.5 percent over the previous year. Year-to-date July 2015, average daily rate growth has slowed compared to last year, exhibiting a 3.8 percent increase over the previous year.

RevPAR (revenue per available room) in this market has increased annually by 10.6 percent, due to the combination of significant growth in occupancy and average daily rate. Year-to-date July 2015 data shows additional RevPAR increases at 5.7 percent over the same period last year.

While ADR, occupancy, and RevPAR have all grown in the competitive market since 2010, moderate occupancy and seasonal rate fluctuations suggest that this market may not support excessive additional supply. With at least three new hotels projected to open in downtown Palm Springs over the next year, the proposed subject hotel may struggle to compete in an increasingly crowded playing field. The following table summarizes our estimates of future supply, accommodated demand, occupancy, average daily rate, and RevPAR for the competitive market from 2015 to 2019.

Projected Market Performance of the Competitive Supply									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2015	528,885	0.0%	365,100	3.0%	69%	\$143.00	5.4%	\$ 98.72	8.5%
2016	528,885	0.0	359,600	-1.5	68	149.00	4.2	101.31	2.6
2017	528,885	0.0	359,600	0.0	68	153.00	2.7	104.03	2.7
2018	528,885	0.0	359,600	0.0	68	158.00	3.3	107.43	3.3
2019	528,885	0.0	359,600	0.0	68	163.00	3.2	110.83	3.2
CAAG	0.0%		-0.4%			3.3%		2.9%	

Source: PKF Consulting USA

Overall, although the area has some demand generators, they currently make full use of the existing lodging supply in the market. In addition, the market performance of the nine-property competitive set suggests it may not support a significant increase in supply. The proposed subject's site located further from demand generators also poses a potential challenge to the new property's ability to attract guests from existing competitive properties.

Based on our market analysis, we are of the opinion that there is insufficient demand to support the development of the proposed hotel in Desert Hot Springs, California. Our conclusions are based primarily on the location of the subject site.



## RECOMMENDATION FOR POTENTIAL DEVELOPMENT

It is our opinion that the proposed site will not support the development of a hotel without being built out with demand drivers, including creative retail and dining options as well as office space to attract new industry to the region. The proposed project should attract creative retail and restaurant tenants to complement the proposed technology park and would be dependent on potential plans for an adjacent business campus moving forward. The retail portion of the project should attempt to attract local visitors as well as hotel guests by offering shopping and dining experiences not available in the greater Desert Hot Springs area. These demand drivers would feed into the subject hotel and ensure proximity to local amenities for hotel guests.

In this case, it would be our recommendation that the subject hotel be a select-service hotel designed to capture commercial and group demand generated by the surrounding office space and transient demand from travelers visiting the various shopping and dining options that will be offered in the proposed mixed-use development on the subject site. The subject hotel's positioning within the proposed mixed-use office and retail complex necessarily informs this recommendation as the subject could rely on adjacent shopping and dining and only offer a select range of amenities. As is, it is our opinion that the subject site will not support hotel development.

The addenda contain the site plan and map for the proposed subject, a map for the nine competitive properties, and the terms and conditions.

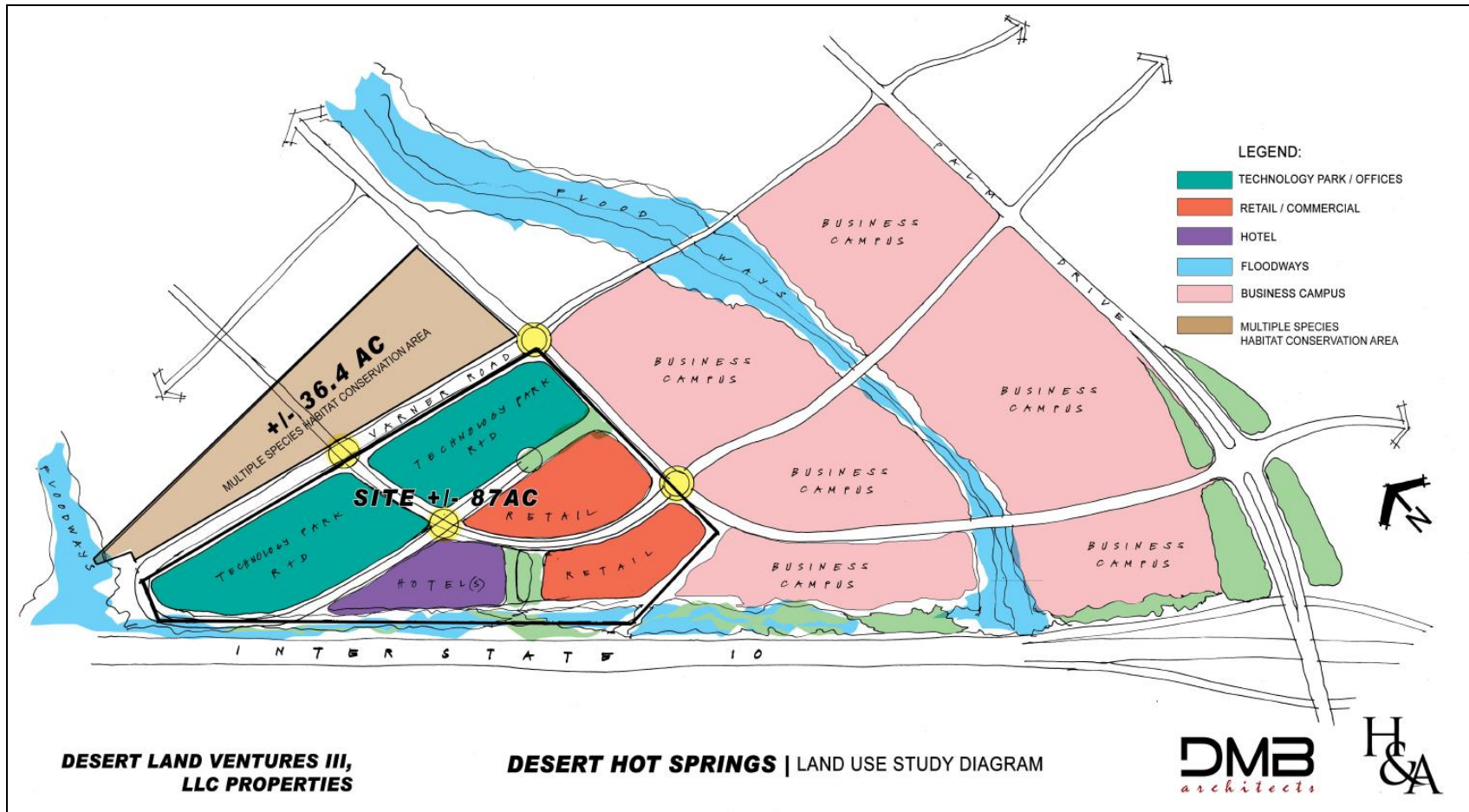
We thank you for the opportunity to work on this project. We look forward to talking with you about our findings and conclusions. Should you have any questions, please feel free to contact me.

Sincerely,



Bruce Baltin  
Managing Director

## ***Addenda***

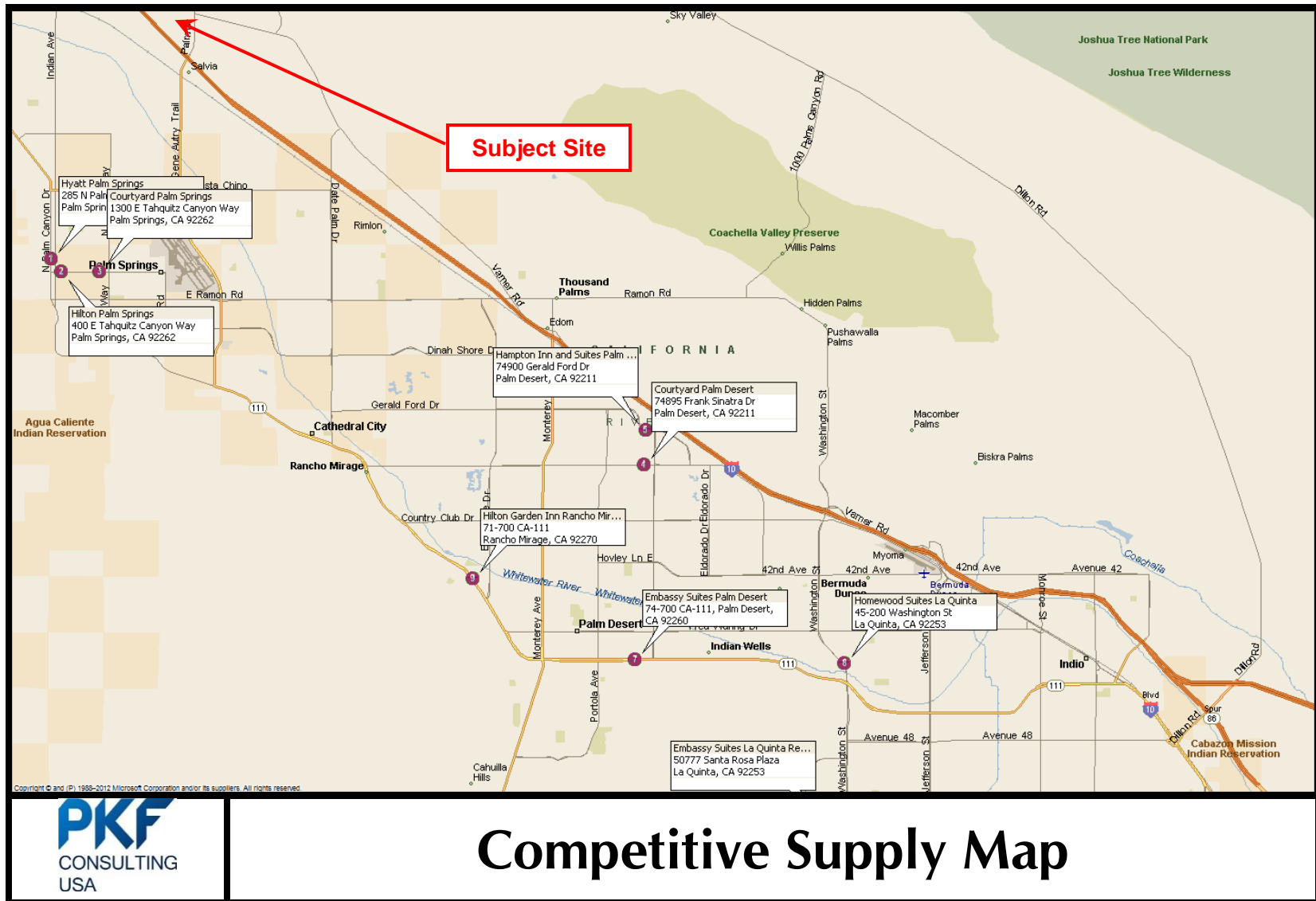


Site Plan





*Site Map*



## TERMS AND CONDITIONS

1. The Terms and Conditions herein are part of an agreement for consulting services (the "Agreement") between CBRE, Inc. (the "Consultant") and the client signing this Agreement, and for whom the consulting services will be performed (the "Client"), and shall be deemed a part of such Agreement as though set forth in full therein. The Agreement shall be governed by the laws of the state where the Consultant's office is located for the Consultant executing this Agreement.
2. Client shall be responsible for the payment of all fees stipulated in the Agreement. Payment of the engagement fee and preparation of a report (the "Report") are not contingent upon any predetermined value or on an action or event resulting from the analyses, opinions, conclusions, or use of the Consulting Report. Final payment is due as provided in the Proposal Specifications Section of this Agreement. If a draft report is requested, the fee is considered earned upon delivery of the draft report. It is understood that the Client may cancel this assignment in writing at any time prior to delivery of the completed report. In such event, the Client is obligated only for the prorated share of the fee based upon the work completed and expenses incurred (including travel expenses to and from the job site), with a minimum charge of \$500. Additional copies of the Reports are available at a cost of \$250 per original color copy and \$100 per photocopy (black and white), plus shipping fees of \$30 per report.
3. If Consultant is subpoenaed to give testimony or otherwise required or requested by Client or a third party to participate in meetings, phone calls, conferences, litigation or other legal proceedings (including preparation for such proceedings) because of, connected with or in any way pertaining to this engagement, the Report, the Consultant's expertise, or the Property, Client shall pay Consultant's additional costs and expenses based on Consultant's then-prevailing hourly rates and related fees. Such charges include and pertain to time spent in preparing for and providing court room testimony, depositions, travel time, mileage and related travel expenses, waiting time, document review and preparation time (excluding preparation of the Report), meeting participation, and Consultant's other related commitment of time and expertise. Hourly charges and other fees for such participation will be provided upon request. In the event Client requests additional consulting services beyond the scope and purpose stated in the Agreement, Client agrees to pay additional fees for such services and to reimburse related expenses, whether or not the completed report has been delivered to Client at the time of such request.
4. Consultant shall have the right to terminate this Agreement at any time for cause effective immediately upon written notice to Client on the occurrence of fraud or the willful misconduct of Client, its employees or agents.
5. In the event Client fails to make payments when due then, from the date due until paid, the amount due and payable shall bear interest at the maximum rate permitted in the state where the office is located for the Consultant executing the Agreement. In the event either party institutes legal action against the other to enforce its rights under this Agreement, the prevailing party shall be entitled to recover its reasonable attorney's fees and expenses. Each party waives the right to a trial by jury in any action arising under this Agreement.
6. Consultant assumes there are no major or significant items or issues affecting the Property that would require the expertise of a professional building contractor, engineer, or environmental consultant for Consultant to prepare a valid report. Client acknowledges that such additional expertise is not covered in the engagement fee and agrees that, if such additional expertise is required, it shall be provided by others at the discretion and direction of the Client, and solely at Client's additional cost and expense.
7. In the event of any dispute between Client and Consultant relating to this Agreement, or Consultant's or Client's performance hereunder, Consultant and Client agree that such dispute shall be resolved by means of binding arbitration in accordance with the commercial arbitration rules of the American Arbitration Association, and judgment upon the award rendered by an arbitrator may be entered in any court of competent jurisdiction. Depositions may be taken and other discovery obtained during such arbitration proceedings to the same extent as authorized in civil judicial proceedings in the state where the office of the Consultant executing this Agreement is located. The arbitrator shall be limited to awarding compensatory damages and shall have no authority to award punitive, exemplary or similar damages. The prevailing party in the arbitration proceeding shall be entitled to recover its expenses from the losing party, including costs of the arbitration proceeding, and reasonable attorney's fees. Client acknowledges that Consultant is being retained hereunder as an independent contractor to perform the services described



## TERMS AND CONDITIONS

(continued)

herein and nothing in this Agreement shall be deemed to create any other relationship between Client and Consultant. This engagement shall be deemed concluded and the services hereunder completed upon delivery to Client of the Report discussed herein.

8. All statements of fact in the report which are used as the basis of the Consultant's analyses, opinions, and conclusions will be true and correct to the best of the Consultant's knowledge and belief. Consultant does not make any representation or warranty, express or implied, as to the accuracy or completeness of the information or the condition of the Property furnished to Consultant by Client or others.
9. Consultant shall have no responsibility for legal matters, including zoning, or questions of survey or title, soil or subsoil conditions, engineering, or other similar technical matters. The report will not constitute a survey of the Property analyzed.
10. Client shall provide Consultant with such materials with respect to the assignment as are requested by Consultant and in the possession or under the control of Client. Client shall provide Consultant with sufficient access to the Property to be analyzed, and hereby grants permission for entry unless discussed in advance to the contrary.
11. The data gathered in the course of the assignment (except data furnished by Client) and the report prepared pursuant to the Agreement are, and will remain, the property of Consultant. With respect to data provided by Client, Consultant shall not violate the confidential nature of the Consultant-Client relationship by improperly disclosing any proprietary information furnished to Consultant. Notwithstanding the foregoing, Consultant is authorized by Client to disclose all or any portion of the report and related data as may be required by statute, government regulation, legal process, or judicial decree, including to appropriate representatives of the Appraisal Institute if such disclosure is required to enable Consultant to comply with the Bylaws and Regulations of such Institute as now or hereafter in effect.
12. Unless specifically noted, in preparing the Report the Consultant will not be considering the possible existence of asbestos, PCB transformers, or other toxic, hazardous, or contaminated substances and/or underground storage tanks (collectively, "Hazardous Material") on or affecting the Property, or the cost of encapsulation or removal thereof. Further, Client represents that there is no major or significant deferred maintenance of the Property that would require the expertise of a professional cost estimator or contractor. If such repairs are needed, the estimates are to be prepared by others, at Client's discretion and direction, and are not covered as part of the engagement fee.
13. In the event Client intends to use the Report in connection with a tax matter, Client acknowledges that Consultant provides no warranty, representation or prediction as to the outcome of such tax matter. Client understands and acknowledges that any relevant taxing authority (whether the Internal Revenue Service or any other federal, state or local taxing authority) may disagree with or reject the Report or otherwise disagree with Client's tax position, and further understands and acknowledges that the taxing authority may seek to collect additional taxes, interest, penalties or fees from Client beyond what may be suggested by the Report. Client agrees that Consultant shall have no responsibility or liability to Client or any other party for any such taxes, interest, penalties or fees and that Client will not seek damages or other compensation from Consultant relating to any such taxes, interest, penalties or fees imposed on Client, or for any attorneys' fees, costs or other expenses relating to Client's tax matters.
14. Consultant shall have no liability with respect to any loss, damage, claim or expense incurred by or asserted against Client arising out of, based upon or resulting from Client's failure to provide accurate or complete information or documentation pertaining to an assignment ordered under or in connection with this Agreement, including Client's failure, or the failure of any of Client's agents, to provide a complete copy of the Report to any third party.
15. LIMITATION OF LIABILITY. EXCEPT TO THE EXTENT ARISING FROM SECTION 16 BELOW, OR SECTION 17 IF APPLICABLE, IN NO EVENT SHALL EITHER PARTY OR ANY OF THEIR OFFICERS, DIRECTORS, EMPLOYEES OR CONTRACTORS BE LIABLE TO THE OTHER, WHETHER BASED IN CONTRACT, WARRANTY, INDEMNITY, NEGLIGENCE, STRICT LIABILITY OR OTHER TORT OR OTHERWISE, FOR (I) ANY SPECIAL, CONSEQUENTIAL, PUNITIVE, INCIDENTAL OR INDIRECT DAMAGES AND (II) AGGREGATE DAMAGES IN CONNECTION WITH THIS AGREEMENT (EXCLUDING THE OBLIGATION TO PAY THE FEES REQUIRED HEREUNDER) IN EXCESS OF THE GREATER OF THE

## TERMS AND CONDITIONS

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AMOUNT OF THE TOTAL FEES PAID TO CONSULTANT UNDER THIS AGREEMENT OR TEN THOUSAND DOLLARS (\$10,000). THIS LIABILITY LIMITATION SHALL NOT APPLY IN THE EVENT OF A FINAL FINDING BY AN ARBITRATOR OR A COURT OF COMPETENT JURISDICTION THAT SUCH LIABILITY IS THE RESULT OF A PARTY'S GROSS NEGLIGENCE, FRAUD OR WILLFUL MISCONDUCT.

16. Client shall not disseminate, distribute, make available or otherwise provide any Report prepared hereunder to any third party (including without limitation, incorporating or referencing the Report, in whole or in part, in any offering or other material intended for review by other parties) except to (i) any third party approved in writing by Consultant and identified herein as an "Intended User" of the Report, (ii) any third party service provider (including rating agencies and Client's auditors) using the Report in the course of providing services for the sole benefit of Client, or (iii) as required by statute, government regulation, legal process, or judicial decree. In the event Consultant consents, in writing, to Client incorporating or referencing the Report in any offering or other materials intended for review by other parties, Client shall not distribute, file, or otherwise make such materials available to any such parties unless and until Client has provided Consultant with complete copies of such materials and Consultant has approved all such materials in writing. Client shall not modify any such materials once approved by Consultant. In the absence of satisfying the conditions of this paragraph with respect to a party who is not designated as an Intended User, in no event shall the receipt of a Report by such party extend any right to the party to use and rely on such report, and Consultant shall have no liability for such unauthorized use and reliance on any Report. In the event Client breaches the provisions of this paragraph, Client shall indemnify, defend and hold Consultant, and its affiliates and their officers, directors, employees, contractors, agents and other representatives (Consultant and each of the foregoing an "Indemnified Party" and collectively the "Indemnified Parties"), fully harmless from and against all losses, liabilities, damages and expenses (collectively, "Damages") claimed, sustained or incurred by any party arising out of or in connection with such breach, regardless of any negligence on the part of any Indemnified Party in preparing the Report.
17. In the event Client incorporates or references the Report, in whole or in part, in any offering or other material intended for review by other parties, Client shall indemnify, defend and hold each of the Indemnified Parties harmless from and against any Damages in connection with (i) any transaction contemplated by this Agreement or in connection with the engagement of or performance of services by any Indemnified Party hereunder, (ii) any actual or alleged untrue statement of a material fact, or the actual or alleged failure to state a material fact necessary to make a statement not misleading in light of the circumstances under which it was made with respect to all information furnished to any Indemnified Party or made available to a prospective party to a transaction, or (iii) an actual or alleged violation of applicable law by Client (including, without limitation, securities laws) or the negligent or intentional acts or omissions of Client (including the failure to perform any duty imposed by law); and will reimburse each Indemnified Party for all reasonable fees and expenses (including fees and expenses of counsel) (collectively, "Expenses") as incurred in connection with investigating, preparing, pursuing or defending any threatened or pending claim, action, proceeding or investigation (collectively, "Proceedings") arising there from, and regardless of whether such Indemnified Party is a formal party to such Proceeding. Client agrees not to enter into any waiver, release or settlement of any Proceeding (whether or not any Indemnified Party is a formal party to such Proceeding) without the prior written consent of Consultant (which consent will not be unreasonably withheld or delayed) unless such waiver, release or settlement includes an unconditional release of each Indemnified Party from all liability arising out of such Proceeding.