CAC meeting – 3 May 2013

Same participants as last time from KSL: Andy Wirth, Chevis plus his staff (David Griffith and others), plus the three from California Strategies (CalStrat). They were not as involved this time as last.

First, some general impressions of the CAC after two meetings –
1) While KSL will take inputs from members on concerns with the Village design, there will be no debate on alternatives. The Village "will not be designed by committee". While perhaps others would disagree, it appears to me that the chief purpose of the committee is to disseminate the information that is transmitted to the members.

2) The focus of many of the CAC members is, understandably, the impact the Village design has on their particular constituency units (eg view lines, closeness, road access). And KSL is working hard to accommodate these issues. However, very few of the members appear to voice concerns with the overall design issues of views, density, scale, plazas, or building heights (unless they are directly affected).

3) There is universal concern amongst the members on collateral issues such as the traffic, parking, and construction disruption.

<u>The first subject was the KSL Capital Partners (KSLCP) organization and financial structure:</u>
Squaw Valley and Alpine Meadows were acquired by KSL Fund II, and are managed by an entity called Squaw Valley Ski Holdings (SVSH), for which Andy Wirth is the CEO. This entity has four sub-units, Squaw Valley Resort, Alpine Meadows Resort, a Hospitality Company (rentals?), and Squaw Valley Real Estate (Chevis). This last sub-unit is the real estate and construction unit for the Village. It exists as a separate unit to isolate SVSH from any litigation issues. Fund II, whose funds have been deployed (I do not believe that means "spent", but rather allocated), also has entities running Club Corp, Western Athletic Club, and KSL Resorts (a holding company). Andy reports to the KSLCP partners and makes periodic presentations to the Fund II investors, of which there are 82. We know that Oregon Public Employee Retirement Fund is one of them.

> http://www.oregon.gov/treasury/Divisions/Investment/Documents/OPERF%20Private%20Equity%20Portfolio%20Information.pdf

Fund III is a new KSLCP fund which has recently purchased 24% of Whistler Blackcomb and, last month, Malmaison Boutique Hotels in the UK. Andy said there is $2-3 billion per fund.

The primary message Andy wanted to get across was to dispel the "myth" that they are going to "flip" the village - Fund II has no sunset clause. Fund II can exist for an indeterminate time. He runs SVSH to make a profit (EBIDA), and to distribute a portion to his investors, which he said he did this ski season. Ultimately, his job is to provide an attractive return on investment for his fund II investors which he can do in three ways – sell, borrow, IPO. There are two public ski areas (Whistler & Vail) whose stock prices are around 10X earnings, so that it is the benchmark for a sale.

In response to a question on the "ghost village" concern, Andy and Chevis said there have never been empty properties in their portfolio. Furthermore, they see no problem finding 1100 buyers for their units. It is then up to the marketing arm to bring in enough destination visitors to fill them up. To further address this concern, Chevis said they will create a "white paper" on the history of their properties and projects.

<u>The second discussion was the status of the project through the County</u>:
Chevis said draft Environmental Impact Report (dEIR) should come out in Sept-Nov period, with final EIR in Q1 2014. They hope to start construction in summer 2014, unless delayed by EIR issues or lawsuits. All indications are that they want the review process to move along quickly, and they are putting their money behind that goal.

The water assessment is 5 weeks late, but he is confident it will show plenty of water available for the entire project.

<u>The third discussion was led by Dave Griffith:</u>
Dave reported that when the model first opened, many of the reactions were more negative than positive, but that this has turned around of late. The negatives so far have been:
(1) displacement of current facilities, (2) traffic and parking, (3) density/mass of building, (4) water/sewer, and (5) "vacant" village. He said that after he has a chance to explain things, especially traffic and parking, things turn more positive.

The positives have been: (1) creek rehabilitation, (2) completing the village (completing what IntraWest started), (3) cleaning up base of mountain, and (4) enhanced shuttle program.

Dave pointed out that the model is "max-ed" with regard to entitlements, meaning it is showing every building to the maximum the entitlements, if approved, would allow.

They have engaged Dale Cox architects for design of building exteriors, to make them "warmer". Some initial drawings are on the wall in Base Camp. As they finish each building, and it is approved, that piece of the model will change.

Chevis said that they are working on some modifications to the wall of buildings along the creek, and are considering moving the path to the north side of the creek as well. But there will be no showing of what is being considered until the period between the dEIR and the final EIR. This is the only opportunity for any changes to be made to the design, and whatever is done, it must not require any re-do of the dEIR.

Heights: everything is now in feet (from some reference?) with a story being 12 feet and the roof adding 16 feet.

In the discussion of phasing, Chevis once again commented that Phase 3 is when there is a large requirement for infrastructure $$ (eg ripping up the parking lot (and cleaning up what's under it), building the podium parking, building the 4-lane bridge, fire station, etc.

With regard to Grand Camp (aka MAC), while its design and what will be inside is still up in the air, Andy is very enthusiastic. It is all part of his strategy to turn SV into a recognized training center for world class athletes, and use the facilities for ordinary mortals as well. For example, he talked about a bubble pool for training ski jumpers, which could also have a Tarzan swing for kids. From an interchange around the table, it was clear there is a wide range of opinions about this facility. Andy referred people to Jay Peak to see how successful it could be.

<u>The fourth discussion concerned the projected costs for the project:</u>
The purpose of the discussion was to demonstrate why they need 1000 units, but we never got to tie it all together. The details of this discussion were asked to be kept confidential, so I will not provide them. But, for example, Grand Camp is projected to cost $45Million, which is a number Chevis had publicly said before.

Chevis said that KSL has spent $3/4 million with research analysts and are running 125 pro formas (I think these are all "what if" scenarios). The final product will have a range of moderate to boutique condo/hotels, but nothing at the lower end. He restated that Squaw Valley is the "best domestic asset" that KSL now holds – "there are lots of opportunity for growth".

They repeated the figures given at the Squaw Valley POA meeting, that they expect units to sell for an average of $900/sq ft (and if less than $800 avg they cannot finance the project) versus the current village selling price of $448 to 900, with $577 average. As comparison, Northstar is selling for $800 average. The required average selling price has gone up from the beginning, since they have cut out valuable units – for example, when they reduced Building A floors they lost 1/2 their revenue

Andy said that the completed resort will provide 800-1000 full time equivalent jobs (did not say if incremental or not).

The project is projected to add $36M to the coffers of Placer County with TOT contributing $14 of that. Andy is on a campaign to make sure that it is spent in our locale. And transportation infrastructure is his hot button.

The last discussion had random Q&A:

In response to a question about available market, Andy responded that he divides the destination skiers into three groups: (i) those that always go to the same place year after year, (ii) those that rotate through a small group and repeat, and (iii) those that go to a different place each year. His target is the middle group (ii) – get onto their rotation list.

He also talked about the incentive group (programs from large corporations rewarding their best performers) which requires 400-500 rooms (units? Bedrooms?) to support. This is perhaps a 200,000 person "customer base" (NOT sure I got this correct).

They restated their risk reduction process of "phasing" whereby they will only build the next building after success with the prior, and 50% of the new building is sold. They also indicated that if they see a slow-down in the market – and they expect a few during the entire build out, they will go into a hold mode. Bottom line – this build-out could take a long time.

OTHER:

Some members asked for a roster with affiliation of all the members of the CAC; but some members want to remain "anonymous" and Chevis/Andy will respect that.

While the date for the next meeting is not set, it was agreed amongst the members that it would focus on traffic. At a later meeting, KSL will explain their ideas on how to offset the impacts (15 years of construction, etc) to locals with their locker legacy program and their 96"146" club.