

# *City of Brisbane*

## *Agenda Report*

TO: Mayor and City Council

FROM: Clayton Holstine, City Manager

SUBJECT: Sierra Point Hotel Feasibility Study

DATE: For Council Meeting on August 19, 2013.

### **Recommendation**

Receive report from RSBA & Associates on Feasibility and market Study for Sierra Point Hotel

### **Background**

The City of Brisbane contracted with Rick Swig of RSBA & Associates this past spring to conduct a study of the site on Sierra Point that has been planned for a hotel up to 700 rooms since the 1970's.

The study findings recommend a smaller 200 room and would not be built until such time as the current office buildings are leased up and the two developments currently approved but not built are constructed and filled.

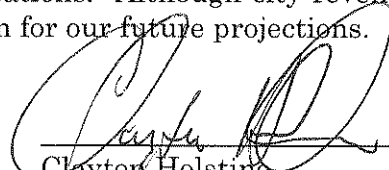
The timing of a new hotel is therefore many years into the future.

This study has been reviewed by the Council's Subcommittee on Economic Development.

The findings of the study should inform future discussion of development at Sierra Point including but not necessarily limited to potential development agreements, planning guidelines, and creation and management of public spaces.

### **Financial Implications**

At this time there are no immediate financial implications. Although city revenue from a hotel could be significant it has never been counted on for our future projections.



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**FEASIBILITY AND MARKET STUDY**

**FOR**

**SIERRA POINT HOTEL**

**BRISBANE, CALIFORNIA**

Prepared by RSBA & Associates

San Francisco, California

June 25, 2013

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## **SIERRA POINT HOTEL** **BRISBANE, CALIFORNIA**

This report considers the feasibility of developing a hotel on Sierra Point in Brisbane, California:

- Studies feasibility of a hotel development at Sierra Point.
- Identifies optimum inventory size, food and beverage amenities, meeting space square footage, and general amenities.
- Identifies hotel brand options.
- Forecasts operating performance.

The Sierra Point Hotel (“Subject”) site is comprised of 6.1 acres of irregularly shaped land, which is located across Marina Boulevard from Sierra Point Yacht Club and Brisbane Marina on the eastern end of Sierra Point in Brisbane, San Mateo County, California. Marina Boulevard forms each of the north, east, and south boundaries of the site, while the western boundary includes a commercial office site with two high rise commercial office buildings. The Sierra Point Hotel site is not visible from Highway 101, but any mid-rise or high rise building built on the site would enjoy some marginal visibility. The land for the proposed hotel site is owned by Universal Paragon Corporation (UPC).

The purpose of this Market and Feasibility Study is to determine whether there is market support for this project in consideration of market demand and return on investment opportunity to an experienced hotel real estate developer. . It is intended for use by City of Brisbane management and planners and for general information to potential hotel operating companies or developers. It is not meant for use in soliciting financing or as a pretext for a development activity. It is anticipated that this report will be used as a fundamental platform to define the project’s design and architectural scope as well as other planning for the Sierra Point Hotel development.

## SUMMARY OF OPINIONS

There recommended hotel product at the subject Sierra Point location is a 200 room select service hotel, which is to be affiliated with a nationally recognized hotel brand. If feasible, this hotel should not be considered for development until current commercial office buildings, which are located nearby and adjacent to the site are fully occupied, and the two nearby existing undeveloped land parcels are developed and significantly leased. Even with this eventuality of full development and a satisfactory vacancy levels in the surrounding office buildings, the subject site for a hotel will remain high risk and challenging due to the Sierra Point location. Sierra Point currently lacks significant social, entertainment, and retail amenities. Access from Highway 101, the major transportation conduit in the area, and to Oyster Point, the primary center of overnight stay demand generators for the area is challenging.

The market area for the subject Sierra Point hotel would include the suburban towns of South San Francisco, Brisbane, and San Bruno. This area is often referred to as the "SFO North".

It is believed that a new and competitive Sierra Point Hotel would not be an occupancy and average daily room rate (ADR) leader amongst its direct competitors, based on the current competitive performance of high quality and competitive Sierra Point hotels versus direct SFO North competitors, which are mostly located in Oyster Point. The ability to maximize occupancy and ADR market penetration versus potential direct competitors would depend directly on the development of a competitive hotel product with competitive meeting space ratios at the Sierra Point site. Based on research related to the two other hotels located on Sierra Point, including Radisson Hotel and Homewood Suites Hotel, the potential Sierra Point Hotel would not be able to achieve in excess of a 100% fair share of revenue per available room ("REVPAR") versus their direct competition as a select service hotel product.

In general the immediate geographic area surrounding Sierra Point is a combination of commercial and light industrial businesses. This area includes South San Francisco and Brisbane. Although nearly adjacent, Sierra Point is not physically connected to the Oyster Point neighborhood. Further to the west of Sierra Point are bedroom communities and suburbs for San Francisco.

In the last twenty years the area, including Brisbane and South San Francisco, has evolved into a bio-tech and/or life sciences center due to the headquarters development of Genentech and other companies, including Amgen and SAP/Success Factors. As a result, hotels in the towns of South San Francisco and Brisbane have been populated both with customers doing business with many of the aforementioned firms, as well as overnight guests as a result of San Francisco International Airport ("SFO") and general San Francisco tourism activity.

This activity is similar to the high tech and biotech industrial revolution that created a significant commercial boom for the area and simulated what was misinterpreted as the “stabilization” of the hospitality industry throughout the Bay Area in 1997 through 2000. This misread stabilization and growth temporarily created a healthy environment for hotels in the area, especially in 1999 and 2000, as the SFO North and South hotels enjoyed high occupancies due to local demand and overflow from San Francisco and Silicon Valley. Occupancies reached pinnacle levels in 2000 and crashed in 2001.

In 2013 the high tech and biotech industries have again created a significant Commercial segment increase in hotel room demand for the area and stimulated the stabilization of the hospitality industry throughout the Bay Area, including SFO North and South. The SFO North growth, although based on the demand of such solid companies, such as Genentech, Amgen, and SAP, is still subject to ongoing instability accorded to an erratic national economy as well as the volatile nature of the bio-tech and life sciences business segments, where success and failure is often based on government approvals of new products. Today, with seemingly ongoing growth and prosperity the SFO North area businesses are providing demand for high occupancies for hotels in that area. The aforementioned vacillating nature of the bio-tech and life sciences business segments, however, have not allowed reliable demand patterns to establish predictable business forecasts and the ability to bring guest room rates to the most consistent or profitable levels.

Simultaneously, there is growing demand from the City of San Francisco with high hotel room rates and some inventory shortages. Although lucrative currently, this demand is also unreliable over the long term. San Francisco is in its own tech industry related commercial expansion, as well as enjoying continuing status as a premiere location for meetings, conventions, and leisure tourism in general. This has provided demand for SFO North hotels, especially during the prime tourism season between the months of May and November, as well as during high demand citywide convention periods, when the demand for hotel rooms extends south towards San Mateo County. This is referred to as “compression”.

Pressure from the Commercial transient and Group segments, including the individual business traveler from both local firms and the San Francisco International Airport, creates consistent demand patterns for the upscale select and full-service hotels, which are located in the SFO North area, on Monday, Tuesday, Wednesday, and Thursday nights. The lesser demand from those segments creates a significant downturn on weekends, when business travelers give way to price sensitive groups, airport related travelers, and individual leisure travelers, who are seeking an alternative from the high hotel room rates in San Francisco.

The demand from the Commercial transient and Group segments, the influence of which is more clearly defined during the months of November through March without the influence of San Francisco Leisure and other compression demand periods, is illustrated in the comparison of estimated occupancy attributed to simply SFO North neighborhood influences versus the current total annual occupancy (trailing 12 months from March 2013) for each day:

**SIERRA POINT HOTEL**

Day of Week	Occupancy Attributed to SFO North Demand Generators	Annual Occupancy (Trailing 12 Month Period from March 2013)
Monday	70% - 75%	79.9%
Tuesday	78% - 83%	86.8%
Wednesday	78% - 83%	88.3%
Thursday	76% - 81%	83.6%
Friday	60% - 65%	75.3%
Saturday	65% - 70%	79.6%
Sunday	55% - 60%	66.6%
Total Annual Occupancy	68% - 73%	80.0%
Source: Smith Travel Research Competitive Set: Homewood Suites Brisbane, Radisson Brisbane, Four Points South San Francisco ("SSF"), Courtyard SSF, Hilton Garden SSF, Embassy Suites SSF		

Based on the above table, it is probable that at least six (6) occupancy points of demand during weekdays and at least twelve (12) occupancy points of weekend demand for SFO North are created by either compression or other influences from downtown San Francisco. The gap on Friday and Saturday nights is greatest, as influenced by Leisure travelers who are bargain hunting in SFO North versus downtown San Francisco. This becomes evident in the ADR comparisons below.

Additionally, the influences of San Francisco are felt in similar average daily rate (ADR) comparisons, as follows:

Day of Week	ADR Influenced by SFO North Demand Generators	Annual ADR (Trailing 12 Month Period from March 2013)
Monday	\$137 - \$143	\$144.23
Tuesday	\$145 - \$150	\$153.65
Wednesday	\$147 - \$152	\$153.53
Thursday	\$136 - \$141	\$141.92
Friday	\$105 - \$110	\$116.32
Saturday	\$105 - \$110	\$119.79
Sunday	\$115 - \$120	\$124.36
Total Annual Occupancy	\$128 - \$133	\$137.19
Source: Smith Travel Research Competitive Set: Homewood Suites Brisbane, Radisson Brisbane, Four Points South San Francisco ("SSF"), Courtyard SSF, Hilton Garden SSF, Embassy Suites SSF		

Based on the above table, it is probable that at least a \$6 - \$7 premium is created by the San Francisco influence on weekdays, while there is more than a \$10 premium created by Leisure demand from San Francisco on Friday and Saturday nights.

Without the influence of San Francisco, either due to compression or the lure of lower travel costs in SFO North, the upscale select service hotels in the SFO North area would be subject to significantly lower occupancy and ADR levels. This is evidenced during the downturns of 2002 (-19.1% REVPAR decline) and then again in 2009 (-19.7%), when demand and ADR levels subsided in San Francisco. As a result, the SFO North neighborhood should be considered extremely volatile due to its significant reliance at least on the welfare of San Francisco.

San Francisco pre-2001 did displace some demand to the SFO North neighborhood hotels on weekdays, but when the demand downturn occurred in 2001, hotel room availability was plentiful and room rates plummeted. At that time San Francisco not only had available inventory, but it became a far more attractive price/value destination with restaurants, shopping, entertainment facilities, and other amenities for the overnight guest. Additionally, there was also no longer any overflow for overnight stay demand from San Francisco due to citywide conventions. By the end of 2001 demand for the SFO North neighborhood had collapsed. This recurred in 2008 with a similar pattern of occupancy and ADR demise, as noted above.

The overall deterioration of demand and average daily rate undermined both the benefits of hotel ownership and especially the potential for hotel development after January 2001. Demand slightly improved after the end of 2004 and continuing into 2006 and 2007, but the subsequent downturn was so steep that REVPAR only recovered to historic peak levels in 2012.

Although demand is nearing the point where new supply should be required within two to three years, room rates may not reach levels to support the development expense of new supply additions for possibly five years or much longer.

The following chart presents the most recent ten-year history of hotel performance of a “competitive set” of upscale select service or full service hotels in the SFO North (South San Francisco, Brisbane) area, including the Homewood Suites Brisbane, Radisson Brisbane, Four Points South San Francisco (“SSF”), Courtyard SSF, Hilton Garden SSF, and Embassy Suites SSF, according to one of the nation’s foremost research groups, Smith Travel Research:

SFO NORTH UPSCALE HOTELS OCCUPANCY AND ADR (2001 – 2012)			
Year	Occupancy	ADR	REVPAR
2001	59.1%	\$127.50	\$69.84
2002	56.0%	\$100.95	\$56.53
2003	58.3%	\$88.99	\$51.90
2004	65.5%	\$90.81	\$59.44
2005	73.5%	\$90.67	\$70.33
2006	74.7%	\$107.38	\$80.19
2007	75.1%	\$120.68	\$90.57
2008	76.7%	\$129.05	\$96.69
2009	71.5%	\$108.60	\$77.60
2010	76.6%	\$108.21	\$82.88
2011	81.8%	\$118.37	\$95.81
2012	80.6%	\$137.79	\$100.49

Competitive Set: Homewood Suites Brisbane, Radisson Brisbane, Four Points South San Francisco (“SSF”), Courtyard SSF, Hilton Garden SSF, Embassy Suites SSF  
Source: Smith Travel Research

This competitive set was selected for this study, as their operations best reflect the most potential and likely hotel development product for the subject Sierra Point hotel site.



Between 2000 and 2001 over 500 guest rooms were added to an existing 600 room upscale hotel room population in the SFO North neighborhood, which was a reaction to the perceived unlimited high demand, which occurred during the “dot.com” boom of the late 1990’s. When that boom turned to bust in 2001 occupancies and ADR levels declined to the unprofitable levels, which are described in the above table and only began recovery in 2006 and 2007 before falling victim to the economic downturn of 2008 through 2010. Only in 2012 have ADR levels returned to 2001 actual dollar levels. This is sobering in consideration of labor rates which have averaged 5% increases per year and benefit levels which during the same period have exceeded 10% or 15% annually during the last ten years. This is the same pattern of behavior, which is evident in San Francisco, where REVPAR levels were the same at the level of 2000 at end of 2011, which resulted in net operating income ratios in 2012 to be less than half of what they were in 2000 due to increased operating expenses during the same time period..

So, although the SFO North neighborhood has seemingly “recovered”, in fact it has shown an ability to capture high occupancies but not high enough average daily rate levels to enable conditions for adequate profitability for existing owners of hotels, which were built or bought within the last ten years, and, certainly, for any new hotel development for many years to come.

As aforementioned, the SFO North market in general has nearly recovered occupancy demand, but has not been able to generate profitable room rate levels. Within the SFO North neighborhood there are at least two sub-markets, including Oyster Point and Sierra Point, which have different levels of productivity. The performance of hotels is arguably better due simply to location, access, and available demand generators, as follows:

- Location – Oyster Point is in the hub of the bio-tech and light industrial activity within SFO North with the presence of established companies within short distances from most of the competitive hotels. Although Oyster Point suffers from no neighborhood retail, restaurants, or entertainment amenities, it is relatively close and accessible to South San Francisco for some of these amenities.

Sierra Point, which is a peninsula, is virtually an island with no availability of neighborhood retail, restaurants, or entertainment amenities, and neither directly adjacent or easily accessible to South San Francisco or any other neighborhood for any of these amenities. The north side of Sierra Point has mostly vacant land and empty or under-populated commercial office buildings, while the southern portion has well-occupied headquarter biotech commercial office buildings, which are vacated on nights and weekends.

- Access – Sierra Point, although less than a mile geographically from South San Francisco, is actually over three miles away via automobile. Oyster Point is physically located within a thousand yards of Sierra Point, but there is no convenient direct vehicular access between the two locations, while the closest vehicular path includes a 3.5 mile drive (1.5 miles north and 2 miles south). This same challenge impacts access to San Francisco Airport, as the added three (3) mile loop, which is required to gain access to Highway 101 to the north to enable travel to the south, is confusing and adds time versus the same access from Oyster Point hotels. Sierra Point is closer to San Francisco than is Oyster Point with easy access to the north, but the access from San Francisco is intuitively flawed, as it is completed by means of an exit along Sierra Point Parkway, which is actually 1.5 miles north of Sierra Point.
- Demand Generators – The four major demand generators for SFO North include: Genentech, SAP/Success Factors, Amgen, and tourists for the City of San Francisco. The three major commercial demand generators are all located in Oyster Point and convenience or accessibility limits their priority or willingness to utilize Sierra Point hotels, while Sierra Point’s most significant demand generators, including Actelion, Fluidigm, Hitachi, Veracyte, Monster, and Cutera, do not have the volume to offset the inability to adequately cater to Genentech, SAP/Success Factors, Amgen unless lack of availability forces that demand to Sierra Point.

Sierra Point hotels have been able to generate relatively high occupancies either due to their specialty product nature (Homewood Suites – all suites, extended stay) or through discounted room rate enhancements, which attract rate sensitive buyers for either SFO North or San Francisco. Demand compression from San Francisco, which has created the significant room rate premium for San Francisco hotels versus Sierra Point with the side effect of bargain shopping for hotel rooms in Sierra Point, has been the single largest contributor to most of the success or growth at the Sierra Point hotels. Even the extended stay activity has been supported significantly by activities at San Francisco’s Hunter’s Point due to the lack of affordable extended stay product within San Francisco. Any current success, which is enjoyed by Sierra Point hotels, is precarious, as it indicates that there are really not enough fundamental local demand generators to support the health and profitability of existing hotel enterprises, much less future endeavors.

Depending on the strength of the life sciences and biotech segment within the SFO North neighborhood, growth will continue to at least sustain and most likely climb during weekday periods. As San Francisco will not have any new supply and is certain to sustain its appeal for visitors, the weekends and vacation periods between May and November should also sustain and improve. ADR growth is needed to enable profitability and any new developer’s return on investment for new construction, however. The more historically lucrative Commercial segment will ultimately create the demand for higher occupancy levels and thus the compression to stimulate room rate increases. More aggressive ADR growth could only result from the pressure of greater weekday activity, where capacity levels in the area may be potentially reached on a regular basis. Weekend ADR levels may be slower to grow, as the primarily Leisure customers during these time periods are heavily discount oriented.

Room rate growth is evident with increases of nearly 10% in 2011, nearly 15% in 2012, and a forecasted trend of 6% - 8% in 2013, however double digit increases are needed for at least three to five successive years to return to adequate profit margins to justify new development, which would trail by another three to five years after adequate room rate recovery.

Along with the need for higher room rates the subject Sierra Point hotel site would require more demand generators in a context similar to that of the Oyster Point neighborhood. Oyster Point hotels have directly benefited from the evolution of the area with the development of headquarters or significant campuses, such as Genentech, Amgen, and Success Factors. Similarly, hotel operations in Sierra Point will only meet their potential or require additional supply, when a similar pattern of development occurs on Sierra Point with both the development of available land parcels, which are designated for commercial office or research and development buildings, and the fuller occupancy of existing commercial buildings.

The Sierra Point Marina, which was completed in 1983 and can house 583 boats, should not be considered a primary demand generator. Although a potentially attractive aesthetic for views to the east from the potential subject hotel, the amenity would provide little added value in overnight stay potential. A similar marina in Oyster Point provides no added demand to hotels in that neighborhood, including the directly adjacent Inn at Oyster Point

### **Recommendations**

Based on this 2013 view, the general San Francisco and SFO North, including Sierra Point, area markets are anticipated to sustain and/or grow for at least several years. The high tech and bio-tech industries once again seem to be the strongest regional area business drivers, while San Francisco continues to be a strong meetings, convention, and tourism center at least through 2020. There are current financial barriers to entry for new hotel development. The cost and availability of land coupled with high construction cost thresholds have been a deterrent for new construction, especially based on the relatively poor profit performance of existing hotel assets in the immediate Sierra Point neighborhood (to be discussed further in this report).

When new hotel construction is financially justified at the subject Sierra Point hotel site, it is recommended that the hotel feature between 200 guest rooms in a mid-rise structure or as appropriate to the site's zoning guidelines. A bedding mix with at least 40% two bedded rooms is critical to serve the family and group tourist market, although single king bedded rooms are preferred by travelers on business.

Demand will be harvested from the three main hotel market segments: Commercial transient, Leisure transient, and Groups, including corporate, association, and SMERF (social, military, educational, reunion, fraternal, sports – special interest in general). For the Commercial segment the subject hotel site is currently not convenient to the area's major demand generators, so development consideration should be postponed until there are adequate Commercial segment demand generators within the immediate Sierra Point neighborhood in conjunction with build out of available land and occupancy of available commercial building space, including the following:

1. Sierra Point Northwest Corner Offices (3000 Marina Blvd) – entitled for 438,000 s.f. of commercial office in 2 buildings.
2. South Shore Biotech Campus- entitled for 540,000 s.f. of R&D space in 5 buildings and 15,000 s.f. retail liner along parking garage.

Leisure traveler demand will continue to come from travelers who are price sensitive versus prices in San Francisco or enjoy the convenience of an airport location. The Group segment will include corporate groups who require the convenience to nearby affiliate campuses or the airport, while on weekends there are SMERF groups who may receive a better price/value at a Sierra Point location versus San Francisco.

To assist in the capture of that demand the hotel would be anticipated to be an internationally branded, upscale select service hotel with similar service and product standards to the current Hilton Garden and Courtyard by Marriott hotels in Oyster Point. A “brand name” support would therefore assist in the establishment of the hotel's identity to minimize its stabilization period.

No local interview with either potential customers or competitors yielded a positive recommendation or inclination for a full-service upper upscale product, as that niche is satisfactorily satisfied with hotels south of the airport or in San Francisco. Indications from customers and competitors are that “price/value” and “convenience” are more critical components than higher product and service standards.

The important considerations for a competitive brand would also include the strength of its frequent guest program, experience and track record in both the group and transient markets within the United States and preferably with airport location experience, national corporate and travel agent consortium recognition and programs, and immediate positioning to compete effectively against other nationally branded hotels (Marriott, Starwood, and Hilton) in the immediate geographic market.

Products and services would include those required by any brand standard, but it is recommended that the hotel include an indoor pool and fitness center, which are consistent with the needs of travelers and present within the SFO North competitive set. The primary competitive set hotels, which will be described further in this report, feature fairly generic product, which are governed by their individual brand standards.

In addition, as the Sierra Point neighborhood currently has only one restaurant, which is located at the Radisson Hotel, a restaurant should be considered with direct adjacency to the hotel building. This restaurant should have a separate identity, a street entrance, and allow views of Sierra Point Marina and San Francisco Bay. It should be envisioned to provide support for the hotel through a service kitchen for any social events or business meetings, which would be hosted by the hotel. The destination restaurant would be open for two meals daily. In consideration of social events and business meetings, it is recommended that the hotel include a competitively high ratio of meeting space to guest rooms with potentially 3,000 square feet ("s.f.") of meeting space. This would be inclusive of a divisible 1,500 s.f. - 2,000 s.f. function room, which would allow the hotel to host upwards of a 100 – 125 room group with adequate space for a meeting and separate dining facility. This is severely lacking in the SFO North region, as the area's largest hotel ballroom or function space, which is located at the Embassy Suites, is 3,700 s.f.

As an upscale select service hotel with amenities and service standards described above, the following would summarize the advantages and disadvantages for the subject Sierra Point hotel, when building becomes feasible after build out of current open land sites and full occupancy of available commercial buildings:

**Advantages**

- Location near Highway 101
- Competitive quality sleeping rooms and high percentage of two bedded rooms
- Fitness and spa facility
- Dedicated parking
- Flexible meeting space
- Proximity to major sources of commercial traveler and tourism demand
- Affiliation with internationally known brand
- Location in a high growth market
- Located in area with some barriers to entry for new hotel development
- Located midway between San Francisco and San Francisco Airport
- New construction and contemporary product

**Disadvantages**

- Poor freeway access
- Not connected or conveniently accessible to Oyster Point
- No retail, restaurant, or entertainment infrastructure or amenities
- Primary demand generators are limited to the commercial market segment and weekend or seasonal tourists for San Francisco
- Subject to volatility of bio-tech and life science industry cycles
- Subject to uneven and unpredictable compression of demand from San Francisco

## PROJECT DESCRIPTION

The Sierra Point Hotel site is on the eastern edge of Sierra Point next to the Sierra Point Marina. The site is 6.1 acres and irregular in shape. The most recent Sierra Point Hotel plan anticipated construction of 700 rooms, however there will probably not be available demand for a hotel of more than 200 rooms. At this point there is no prescribed square footage coverage limit. Design will be a critical issue for the hotel, as there are important view corridors, and the subject hotel will probably only occupy no more than 3.5 acres of the site. The subject hotel, although not recommended to be full-service, should be constructed with adequate adjacent parking and accessibility or direct connection to a lunch and dinner full service restaurant with the ability to provide for any banquet services within the hotel.

The hotel site location is nearby current area commercial demand generators in Sierra Point and Oyster Point, including Genentech, Amgen, SAP/Success Factors, Monster, Veracyte, Fluidigm, Actelion, and Cutera, but would not be viable until the build out of current surrounding open space and mostly vacant office space is fully occupied with commercial segment business travel demand. The isolation of Sierra Point due to lack of direct connection to Oyster Point and the access point to and from Highway 101 presents a significant challenge and a competitive disadvantage with regard to convenience to commercial business travelers and the ability to capture demand from both locations.

### Facilities

The Sierra Point Hotel in Brisbane is recommended as a 200-room select service hotel with 3,000 s.f. of meeting space with an unaffiliated adjacent, yet attached, two-meal (lunch and dinner), full-service restaurant with its own defined street entrance. Its design will be critical to take advantage of the view corridors, which are available through its location across the street from the Sierra Point Marina. Additionally, it is anticipated that the hotel will require a minimum of 200 dedicated parking spaces.

The product features and design of public spaces and guest room areas must be comparable to the top performers within the competitive set (Hilton Garden, Courtyard by Marriott, Radisson, Embassy Suites, Four Points by Sheraton). Guest rooms should be of brand standard size with appropriate furnishings, finishes, and amenities. An indoor pool plus a spa/fitness facility (1,000 s.f. -1,500 s.f.) will make the hotel more competitive and provide value to achieve a higher ADR penetration. Brand standard inclusion of a cocktail lounge and a “grab and go” fast food outlet are also anticipated.

Development should include a competitive ratio of meeting space to guest rooms (15 s.f. or 3,000 s.f. total square feet). Meeting space should be scheduled to include a 1,500 s.f. and divisible event room plus breakout rooms, either divisible or not of 500 s.f. The meeting space will be critical in differentiating the hotel from other competitors with deficient meeting space to capture a significant share of the meeting and social group business, and stabilizing weekly occupancy.

It would be anticipated that the subject Sierra Point hotel’s guest room inventory would contain a room mix that includes 60% king-sized beds (350 s.f.) and 35% two bedded rooms (350 s.f.) with the possible consideration of some one-bedroom suites with separated parlors and sleeping areas (500 - 600 s.f.). Additionally, two-bedded rooms should be adjacent to king rooms with connecting doors. The room mix is recommended in a 200 room configuration, as follows:

SAN FRANCISCO, CALIFORNIA SIERRA POINT HOTEL ROOM CONFIGURATION	
Room Type	Number of Rooms
King	120
Double Queen	80
Parlors for Suites	5
<b>Total</b>	<b>200</b>
Accessible rooms for customers with disabilities will comply with legal statutes	

It is recommended that the hotel will include the following guest room amenities:

- Coffee makers
- AM/FM/CD clock radios
- Ironing boards and irons
- Brand standard flat screen televisions with state of the art satellite entertainment features and in room entertainment/component system
- Two telephones (work desk and night stand) with speakerphone plus separate jack for high speed internet access at the work desk
- Brand required work desk/utility table with multiple electrical plug capability
- Refrigerator/mini-bar
- Hairdryer in bathroom
- Make-up mirror in bathroom
- Three fixture Bathroom (Shower/Tub, Toilet, Sink)
- Three-way nightstand, floor, and desk lamps
- In-room safe
- Brand standard quality finishes and bedding

Most of the above will be mandated by standards from the selected hotel brand, which will be operating the hotel.

The separate and unaffiliated free standing retail food and beverage facility should be considered important, both as a transient and group amenity for the hotel and equally as important to fill a culinary void in the competitive market. There should be demand for a two-meal restaurant from Sierra Point related businesses and their employees, plus local Brisbane and South San Francisco residents, as well as hotel transient guests and groups. There should also be a separate “grab and run” outlet with coffee drinks, juice, fruit and breads in the morning, along with lighter fare (sandwiches, salads, and snacks) throughout the day for the benefit of hotel guests. High quality items and fast service are more important than price for these operations.

## SIERRA POINT HOTEL

Competitive hotels currently do not charge for parking. The Sierra Point Hotel should plan for at least 200 covered or uncovered dedicated parking spaces. Competitive hotels also leverage their parking inventory for “Park and Fly” packages, which include long term free parking with the purchase of a hotel room. The latter works well for travelers from remote Bay Area locations with early morning planes and the preference not to pay for high priced off site airport parking during their trips.



## MARKET OVERVIEW

### San Francisco Bay Area

San Francisco Bay Area is the country's fourth largest metropolitan area and one of the world's most visited destinations. It is comprised by nine counties, which are anchored by three major cities: San Francisco to the west; Oakland to the east; and San Jose to the south. The San Francisco Bay Area features an expanding economy, beautiful sceneries, moderate climate, educated population, and a variety of recreational resources.

#### 1. Population and Demographics

- Based on the population projections prepared by the California Department of Finance, the San Francisco Bay Area will grow significantly, adding 1.8 million new residents, led by Contra Costa County, which will gain about 533,000, and Santa Clara County, with 412,000. Santa Clara will continue to be the most populated county in the Bay Area with a population of 2.2 million. San Francisco is expected to continue to grow, but at a slower pace and will achieve a population of just over 926,000 by 2060.

San Francisco Bay Area Counties Total Population Projections: July 1, 2015 to 2060 in 5-year Increments												
	Estimates	Projections										
	2010	2015	2020	2025	2030	2035	2040	2045	2050	2055	2060	% Projected Change 2010 - 2060
Alameda County	1,513,236	1,577,938	1,608,204	1,634,983	1,657,567	1,668,918	1,678,565	1,684,953	1,684,761	1,680,989	1,675,011	10.7%
Contra Costa County	1,052,211	1,093,171	1,147,399	1,197,866	1,254,205	1,324,740	1,392,509	1,443,636	1,489,068	1,535,831	1,585,244	50.7%
Marin County	252,731	255,006	251,361	251,899	253,026	255,475	259,549	262,527	264,810	267,841	272,275	7.7%
Napa County	136,811	140,855	145,660	151,537	158,649	165,347	172,927	179,807	185,238	190,647	196,243	43.4%
San Francisco County	806,254	835,109	852,788	867,354	877,847	886,167	891,607	898,921	907,443	916,579	926,555	14.9%
San Mateo County	719,729	747,637	747,563	766,521	803,288	833,209	850,112	875,181	895,603	911,842	928,706	29.0%
Santa Clara County	1,786,429	1,874,604	1,889,898	1,936,386	1,986,545	2,038,645	2,083,710	2,121,519	2,152,199	2,176,556	2,198,503	23.1%
Solano County	413,117	424,494	447,217	467,130	493,422	526,213	551,491	572,623	592,850	613,717	634,852	53.7%
Sonoma County	484,084	495,457	507,250	519,734	534,439	551,621	572,664	589,743	598,795	607,075	616,340	27.3%

Source: Projections Prepared by Demographic Research Unit, California Department of Finance, January 2013

According to the 2010 U.S. Census, the racial makeup of the nine-county Bay Area was as follows:

- 52.5% White including white Hispanic
- 6.7% non-Hispanic African American
- 0.7% Native American
- 23.3% Asian (7.9% Chinese, 5.1% Filipino, 3.3% Indian, 2.5% Vietnamese, 1.0% Korean, 0.9% Japanese, 0.2% Pakistani, 0.2% Cambodian, 0.2% Laotian, 0.1% Thai, 0.1% Burmese)

- 0.6% Pacific Islander (0.1% Tongan, 0.1% Samoan, 0.1% Fijian, 0.1% Guamanian, 0.1% Native Hawaiian)
- 10.8% from other races
- 5.4% from two or more races

The population was 23.5% Hispanic or Latino of any race (17.9% Mexican, 1.3% Salvadoran, 0.6% Guatemalan, 0.6% Puerto Rican, 0.5% Nicaraguan, 0.3% Peruvian, 0.2% Cuban)

- Household income summary of the Bay Area region is presented in the following table based on the American Community Survey (ACS), which is a nationwide survey conducted by the U.S. Census Bureau. San Mateo County with a median household income of \$87,633 is one of the highest in the region.

San Francisco Bay Area Counties Income (in 2011 Inflated Adjusted Dollars)			
	Median household income (Estimate)	Median family income (Estimate)	Per capita income (Estimate)
Alameda County	\$70,821	\$87,012	\$34,937
Contra Costa County	\$79,135	\$93,437	\$38,141
Marin County	\$89,605	\$113,826	\$54,605
Napa County	\$68,641	\$79,884	\$35,309
San Francisco County	\$72,947	\$87,329	\$46,777
San Mateo County	\$87,633	\$104,370	\$45,346
Santa Clara County	\$89,064	\$103,255	\$40,698
Solano County	\$69,914	\$79,31	\$29,367
Sonoma County	\$64,343	\$78,227	\$33,119

Source: 2007-2011 American Community Survey (ACS), U.S. Census Bureau

## 2. Economy

- The Greater San Francisco Bay Area is recognized as one of the most important financial and commercial regions in the world. The region has a diverse economy with innovative and rapidly growing high-tech sectors, unparalleled access to capital markets including the most active venture capital market in the world, world-class educational institutions such as Stanford and UC Berkeley, a strong transportation infrastructure, a critical mass of business support services, exceptional lifestyle amenities and a thriving visitor industry.

- The San Francisco Bay Area is also one of the world's leading centers for international commerce and benefits from a geographic location that provides strategic access to the Pacific Rim, including fast-growing markets in Asia and Latin America, as well as Europe and Canada. The Bay Area's long-standing cultural and commercial ties with Asia provide a unique competitive advantage for sustaining San Francisco's status as a gateway to the Pacific Rim.
- The San Francisco Bay Area serves as the financial headquarters for the western United States and is a preferred location for prominent Fortune 500 companies. Major international corporations, banks, financial services companies and venture capital firms are located in the region, which collectively provide the necessary capital to fund the region's economic growth. The San Francisco Bay Area, and Silicon Valley in particular, have a high concentration of prominent technology and software companies. Industry leaders including Apple, Cisco and Hewlett-Packard make the area the nation's leading producer of computer hardware and software, while Internet and social media companies including Twitter, Salesforce, eBay, Google, Yahoo and Facebook also maintain headquarters in the Bay Area.
- The San Francisco Bay also has one of the world's largest concentrations of biotechnology and life sciences companies. Attracted by world-class universities such as UC San Francisco, UC Berkeley and Stanford, most of these biotechnology companies have positioned themselves along the San Francisco peninsula from Mission Bay to Redwood Shores.
- The San Francisco Bay Area is internationally recognized as a source for nanotechnology. Economists with the National Science Foundation predict a trillion dollar global market for nano products by the year 2015. With a large cluster of leading companies and universities proximate to each other as well as Silicon Valley's prominent role in technology, the Bay Area is positioned to take commercial advantage of the emergence of nanotechnology.

The San Francisco Bay Area lodging market experiences significant supply constraints due to physical and economic hurdles and high land costs for new hotel developments which limit the amount of new product introduced into the market. Throughout the region, only a limited amount of new hotel supply is expected in the near-term.

LEADING BAY AREA COMPANIES	
Apple, Inc	Google
Applied Materials, Inc.	Gymboree*
Agilent Technologies, Inc.	Hewlett-Packard
Autodesk	Intel Corp.
Bank of America	JP Morgan Chase
Barclays (BlackRock)*	KPMG
Bechtel*	Levi Strauss*
Blue Shield of California*	McKesson*
CBS Interactive (CNET)*	Morgan Lewis & Bockius
Charles Schwab*	Morgan Stanley Smith Barney
Chartis (AIG)	Morrison Foerster*
Chevron Corp.	Oracle Corp
Cisco Systems, Inc.	Orrick, Herrington & Sutcliffe
Citigroup	Pacific Gas and Electric*
Del Monte Foods*	Pillsbury Winthrop
Deloitte	Ross Stores, Inc.
Delta Dental	Safeway, Inc.
Dolby Labs*	Salesforce.com*
eBay, Inc.	Twitter*
Electronic Arts	Union Bank
Facebook	Wells Fargo*
Federal Reserve Bank	Williams-Sonoma*
First Republic Bank*	WR Hambrecht + Co*
Gap, Inc*	Yahoo, Inc.
Genentech	Yelp*
Goodby, Silverstein*	

\* Indicates headquarter location in San Francisco

- The unemployment rate in the San Francisco-San Mateo-Redwood City MD was 5.8% in March 2013, below the year-ago estimate of 7.4%. This compares with an unadjusted unemployment rate of 9.4% for California and 7.6% for the nation during the same period. The unemployment rate was 5.2% in Marin County, 6.0% in San Francisco County, and 5.7% in San Mateo County.

Between March 2012 and March 2013, the total number of jobs in the West Bay expanded by 33,000 jobs, or 3.4%. Nonfarm jobs in the private sector rose by 4.0%.

- Total jobs increased on a year-over basis for the 33rd consecutive month.
- Professional and business services grew by 12,300 jobs. Two-thirds of the gain occurred in computer systems design and other professional, scientific, and technical services.
- Leisure and hospitality rose by 6,600 jobs, while trade, transportation, and utilities expanded by 4,800 jobs.
- Construction advanced by 3,100 jobs to post the fastest year-over job growth rate of the major industry groups—9.3%.
- Information increased by 2,600, while private educational and health services posted a net gain of 2,400 jobs.

San Francisco-San Mateo-Redwood City MD (Marin, San Francisco, and San Mateo Counties) Industry Employment and Labor Force March 2012 Benchmark			
	March 2012	March 2013 (Prelim)	Change
Civilian Labor Force	1,006,200	1,020,600	1.4%
- Civilian Employment	931,800	961,800	3.2%
- Civilian Unemployment	74,400	58,800	-21.0%
Civilian Unemployment Rate	7.4%	5.8%	
(CA Unemployment Rate)	11.1%	9.4%	
(U.S. Unemployment Rate)	8.4%	7.6%	
Industry	March 2012	March 2013 (Prelim)	Change
Total, All Industries	981,300	1,014,300	33,000
Total Farm	2,000	2,000	0
Total Nonfarm	979,300	1,012,300	33,000
Mining and Logging	100	100	0
Construction	33,200	36,300	3,100
Manufacturing	35,300	35,600	300
Trade, Transportation & Utilities	148,300	153,100	4,800
Information	44,600	47,200	2,600
Financial Activities	77,700	79,400	1,700
Professional & Business Services	221,700	234,000	12,300
Educational & Health Services	113,800	116,200	2,400
Leisure & Hospitality	128,000	134,600	6,600
Other Services	39,600	39,400	(200)
Government	137,000	136,400	(600)
Source: Labor Market Information Division of the California Employment Development Department (EDD).			

- The San Francisco Bay has been selected to host the 2013 America's Cup, which include the World Series events, the Louis Vuitton Cup Challenger Series, and America's Cup Finals in 2013. This will be the first time since 1995 that the America's Cup has been hosted in the United States. America's Cup delivers the third largest economic impact in sport to host countries, behind the Olympic Games and soccer's World Cup, and is projected to generate an estimated \$1 billion dollars for the San Francisco region.

3. Transportation

- The San Francisco Bay Area region has an excellent highway transportation system. The major freeway systems located throughout the Bay Area, are as follows:

**Highway's 101 and 280** run north-south from San Francisco along the west Bay through San Jose. Highway 101 continues south toward Los Angeles. In a northern direction Highway 101 connects San Francisco to the North Bay counties of Marin, Sonoma, and Napa.

**Highway 80** connects San Francisco, San Jose and Oakland to Sacramento and the Central Valley.

**Highway 1** runs in the north-south direction along the entire west coast and along the edge of San Francisco.

All the freeways noted above connect and converge in San Francisco, providing excellent automobile and truck access.

- The San Francisco Bay Area hosts three major airports: San Francisco International (SFO), Oakland International (OAK), and Norman Y. Mineta San José International Airport (SJC).

San Francisco International Airport (SFO)

- SFO is one of the world's 30 busiest airports and the Bay Area's largest airport. It offers flights to more than 35 international destinations on over 30 international carriers and service to more than 80 cities in the U.S. on more than 20 domestic airlines.
- Passenger volume increased for a ninth consecutive year to over 44 million passengers in 2012, an 8.0% increase over 2011. SFO is significantly capturing market share from nearby airports as evidenced by its growth in passenger volume relative to San Jose and Oakland airports.
- Following the opening of the 2.5 million square-foot, \$1 billion San Francisco International terminal in 2000, the San Francisco International Airport established itself as the premier international hub on the West Coast. The airport has steadily added international routes since 2003 and is recognized as the gateway to the Far East. Additionally, the airport completed a \$383 million renovation of Terminal 2 in April 2011 that supports increased passenger and gate demands at the airport. The terminal houses American Airlines and Virgin America airlines and is recognized as one of the most sustainable and modern airport terminals in the U.S. The renovations at the airport and the continuing economic and travel recovery should continue to drive increased airlift at San Francisco International Airport.

- Recent service additions at the airport include:
  - SFO's International Terminal opened in 2000 and was designed specifically to accommodate super jumbo aircraft. In May 2011, Lufthansa began A-380 super jumbo jet service between SFO and Frankfurt and in June, Air France began daily service between SFO and Paris.
  - Virgin Atlantic began a second service between London and San Francisco in March 2012 that operates three times a week.
  - Scandinavian Airlines (SAS) began offering six weekly flights between Copenhagen and San Francisco in April 2013.
  - Korean Air and Asiana Airlines increased to daily service in May 2012.
  - United Airlines was subject to begin daily year-round service between SFO and Taiwan's Taoyuan International Airport in Taipei in April 2013, subject to government approval of large jumbo aircraft. The airline will also begin daily year-round service between San Francisco and Charles de Gaulle International Airport in Paris in April 2013, also subject to government approval.

#### Oakland International Airport (OAK)

- Oakland International Airport is located 10 miles south of the central business district of Oakland. OAK is a public airport owned by the Port of Oakland. It is one of three airports serving the San Francisco Bay area. OAK has proven a popular alternative to San Francisco International Airport.
- Southwest Airlines is the major carrier. Oakland is a focus city for Southwest Airlines and Allegiant Air. As of July 2011, Southwest operates 108 daily flights on peak-travel days of the week. Alaska Airlines combined with sister-carrier Horizon Air is in distant 2nd with as many as 12 flights.
- The top five airlines in terms of market share from January 2012 - December 2012 are Southwest Airlines (70.17%), Alaska Airlines (7.03%), JetBlue Airways (5.00%), Allegiant (3.02%), Skywest (2.78%). In 2012, 9,649,000 million people traveled through Oakland International Airport.

Norman Y. Mineta San José International Airport (SJC)

- Norman Y. Mineta San José International Airport (SJC) is located on 1,050 acres in the heart of Silicon Valley. It is owned and operated by the City of San José. SJC is bordered on the south by I-880, on the east by Highway 87, and to the north by Highway 101, offering easy access for passengers throughout Silicon Valley and the San Francisco Bay Area.
- SJC serves approximately 23,000 passengers daily. It recorded 8.3 million passengers in 2012. SJC averaged 120 commercial and 87 general aviation departures daily.

Passenger trends at SFO, OAK, and SJC are summarized in the following table:

San Francisco Bay Area International Airports Historical Passenger Enplanements and Deplanements						
Year	San Francisco	% Change	Oakland	San Jose	Total	% Change
1998	39,326,635	-	9,231,280	10,511,634	59,069,549	-
1999	39,515,808	0.5%	9,879,556	11,594,047	60,989,411	3.3%
2000	40,287,832	2.0%	10,620,798	13,097,196	64,005,826	4.9%
2001	33,955,220	-15.7%	11,416,579	13,091,193	58,462,992	-8.7%
2002	30,741,660	-9.5%	12,634,905	10,935,830	54,312,395	-7.1%
2003	28,786,385	-6.4%	13,548,363	10,355,975	52,690,723	-3.0%
2004	32,156,828	11.7%	14,098,327	10,733,532	56,988,687	8.2%
2005	32,802,363	2.0%	14,417,575	10,756,786	57,976,724	1.7%
2006	33,084,528	0.9%	14,433,669	10,708,065	58,226,262	0.4%
2007	35,317,330	6.7%	14,613,489	10,658,395	60,589,214	4.1%
2008	37,402,541	5.9%	11,474,456	9,717,717	58,594,714	-3.3%
2009	37,453,634	0.1%	9,505,281	8,321,750	55,280,665	-5.7%
2010	39,391,234	5.2%	9,542,333	8,246,064	57,179,631	3.4%
2011	41,035,642	4.2%	9,266,570	8,357,384	58,659,596	2.6%
2012	44,322,561	8.0%	10,040,864	8,296,174	62,659,599	6.8%
YTD Feb 2012	2,990,474		686,517	578,113	4,255,104	
YTD Feb 2013	2,964,003	-0.9%	666,616	584,573	4,215,192	-0.9%

Source: San Francisco, Oakland, and Mineta San Jose Airports

- The San Francisco Bay Area is home to two largest ports: Oakland and San Francisco. Oakland is used primarily as a containerized cargo destination facility and is the largest Bay Area port, loading and discharging more than 98% of containerized goods moving through Northern California. San Francisco's port focuses primarily on tourism uses and is undergoing a major revitalization and modernization to enhance its appeal as a shipping point, passenger ship destination and tourist attraction. The Port's operating portfolio includes internationally recognized landmarks such as Fisherman's Wharf, Pier 39, The Ferry Building and AT&T Park.



- Other San Francisco Bay Area transportation includes:
  - Bay Area Rapid Transit (BART) is a high speed rail system serving the San Francisco Bay Area encompassing 44 stations. BART connects San Francisco with cities in the East Bay and suburbs in northern San Mateo County. With an average of 373,945 weekday passengers, 176,616 Saturday passengers, and 119,247 Sunday passengers in January 2013, BART is the fifth-busiest heavy rail rapid transit system in the United States.
  - Buses: MUNI, Golden Gate Transit and SamTrans
  - CalTrain: 29 local railroad offices that operate as a commuter line between San Francisco and San Jose.

### **County and City of San Francisco**

Occupying 47 square miles of land, the combined City, County, and Port of San Francisco is located on a peninsula between the Pacific Ocean and San Francisco Bay. It is the leading financial and cultural center of Northern California and the San Francisco Bay Area.

#### 1. Population and Demographics

- San Francisco has an estimated population of 806,254 in 2010 as reported by the California Department of Finance. San Francisco is expected to continue to grow, but at a slower pace and will achieve a population of just over 926,000 by 2060.
- According to the 2010 U.S. Census, the ethnic makeup and population of San Francisco include:
  - Whites: 390,387 (48.1%)
  - Asians: 267,915 (33.3%)
  - African Americans: 48,870 (6.1%)
  - Native Americans: 4,024 (0.5%)
  - Pacific Islanders: 3,359 (0.4%)
  - Other races: 53,021 (6.6%)
  - Two or more races: 37,659 (4.7%)

There were 121,744 Hispanics or Latinos of any race (15.1%). Whites not of Hispanic origin made up 41.9% of the population, making San Francisco a majority-minority city, though non-Hispanic whites form a plurality of the population.

- San Francisco is one of the nation's high-ranking downtown areas in average household income, and is the buying power giant of Northern California. Based on the American Community Survey (ACS) U.S. Census Bureau, San Francisco in 2011 reported a median household income of \$72,947, median family income of \$87,329, and a per capita income of \$46,777.

## 2. Economy

- San Francisco is the hub of the nine-county Bay Area and a financial center of the state. The City functions as the administrative center of the Bay Area, providing headquarters for many leading financial, transportation, manufacturing and government establishments. With strong cultural ties to the Pacific Rim its strategic location makes the City a major center of international trade.
- San Francisco is a leading visitor destination and has been ranked the "Best U.S. City" by Condé Nast Traveler for 18 of the last 19 years. In 2011, 16.3 million people visited San Francisco spending \$8.5 billion and generating \$526 million in tax revenues for the City and County of San Francisco.
- For the month of March 2013, San Francisco County's unemployment rate was 6.0% down from 7.8% in March 2012. The San Francisco Metropolitan Division (MD) had a net loss of 14,300 jobs across all industries during the first quarter, but this decline occurred in the wake of year-over-year job growth of 3.6%. The Professional and Business Services sector saw the biggest year-over-year growth of 6.0%. This gain is largely due to growth within the high-tech sector which has experienced 60% job growth over the past two years, adding 15,000 jobs. (Source: California EDD San Francisco MD-Marin-San Francisco-San Mateo counties.)

- Companies with major presence in San Francisco is shown in the following table:

Companies with a Major Presence in Downtown San Francisco	
Autodesk	Gymboree*
Bank of America	JP Morgan Chase
Barclays (BlackRock)*	KPMG
Bechtel*	Levi Strauss*
Blue Shield of California*	McKesson*
CBS Interactive (CNET)*	Morgan Lewis & Bockius
Charles Schwab*	Morgan Stanley Smith Barney
Chartis (AIG)	Morrison Foerster*
Citigroup	Orrick, Herrington & Sutcliffe
Del Monte Foods*	Pacific Gas and Electric*
Deloitte	Pillsbury Winthrop
Delta Dental	Salesforce*
Dolby Labs*	Twitter* (as of 2012)
Federal Reserve Bank	Union Bank
First Republic Bank*	Wells Fargo*
Gap*	Williams-Sonoma*
Goodby, Silverstein*	WR Hambrecht + Co*
Google	Yelp*

\* Indicates headquarter location

### 3. San Francisco Office Market Overview

- San Francisco’s core office market encompasses approximately 55 million square feet of office space in one of the most desirable business locations in the world.
- The city is ranked among the premier real estate investment markets in the U.S. due to its diverse economic base, high concentration of Fortune 500 firms, unmatched access to intellectual capital and its superlative quality of life. The San Francisco office market’s foremost attributes include:
  - Excellent long term fundamentals as a result of both its position as the focal point of the San Francisco Bay Area and a highly diversified corporate base within an innovative and dynamic regional economy.
  - Highly diversified tenant base, including leading positions in the financial services, retail, technology and government sectors. Significant barriers to entry—new supply is limited to 875,000 square feet annually by Proposition M and the Financial District is essentially built out.
  - Excellent transportation infrastructure, which will be further enhanced with the completion of the ongoing Transbay Terminal redevelopment.

SIERRA POINT HOTEL

- The city’s rapidly expanding tech sector is driving record absorption rates and placing upward pressure on rents throughout the city. Rental rates in San Francisco have increased approximately 20% in the last year, with available Class A office space becoming increasingly difficult to find, especially in the tech-centered South of Market.
- The following are highlights of the first quarter 2013 San Francisco office market, as reported by CBRE:
  - Leasing activity down by 40% from one year ago and by 30% from two years ago.
  - 2.8 MSF of office space currently under construction, with 2.7 MSF expected to start in the next year.
  - Prime view rents climbing toward \$100 peak experienced in 2000 and 2007.
  - Vacancy decreased by 80 basis points to 8.7% over the quarter and by 130 basis points over the year.
  - Pace of rent growth slowed as rents grew by 4.0% market wide.

TOTAL OFFICE MARKET STATISTICS SAN FRANCISCO, CALIFORNIA						
SUBMARKET	NET RENTABLE AREA	TOTAL VACANCY %	TOTAL AVAILABILITY %	AVERAGE ASKING RATE*	Q1 NET ABSORPTION	YTD NET ABSORPTION
Financial District	26,238,955	8.6%	12.8%	\$51.98	(97,938)	(97,938)
Class A	19,654,154	8.5%	12.7%	\$54.11	(137,764)	(137,764)
South Financial District	20,507,521	7.7%	13.5%	\$53.14	116,248	116,248
Class A	17,114,067	6.6%	12.9%	\$54.52	179,736	179,736
North Waterfront & Jackson Square	4,941,744	8.3%	13.4%	\$41.92	68,114	68,114
Class A	1,574,219	4.5%	5.7%	\$43.50	54,942	54,942
South of Market	6,331,150	4.5%	9.6%	\$53.91	(50,369)	(50,369)
Class A	2,582,326	4.3%	6.7%	\$58.09	(26,900)	(26,900)
Yerba Buena	3,277,522	7.4%	19.8%	\$49.35	77,564	77,564
Class A	928,001	8.6%	29.7%	\$53.67	116,287	116,287
South of Market West	3,346,803	14.4%	24.8%	\$42.79	9,841	9,841
Class A	1,296,043	9.7%	29.3%	\$45.15	(24,438)	(24,438)
Mission Bay/China Basin	2,510,383	18.6%	20.8%	\$63.11	(15,557)	(15,557)
Class A	2,510,383	18.6%	20.8%	\$63.11	(15,557)	(15,557)
Potrero Hill	1,914,652	16.7%	17.8%	\$47.46	1,365	1,365
Class A	257,109	5.5%	5.5%	\$49.63	16,147	16,147
Civic Center & Van Ness	1,886,302	11.3%	13.7%	\$38.37	11,126	11,126
Class A	609,236	8.8%	13.4%	\$42.08	11,406	11,406
Union Square	3,695,849	7.3%	11.3%	\$45.74	(39,544)	(39,544)
Class A	335,200	2.3%	2.6%	\$47.85	-	-
<b>SAN FRANCISCO OFFICE MARKET</b>	<b>74,650,881</b>	<b>8.7%</b>	<b>14.0%</b>	<b>\$50.79</b>	<b>80,850</b>	<b>80,850</b>
Class A	46,860,738	8.0%	13.4%	\$54.03	173,859	173,859

\* Direct Annual Lease Rates, Full Service Gross  
Source: CBRE| San Francisco Office MarketView | 1Q 2013

4. Tourism

- San Francisco consistently ranks as one of the top tourist destinations in the world. San Francisco Travel Association reported that in 2012 the city hosted 16.5 million visitors, an increase of 1.0% from 2011. Visitor spending reached the highest ever in 2012, with more than \$8.93 billion spent in local businesses, up 5.5% from 2011. This means during an average day in San Francisco, 131,128 visitors are spending \$24.46 million. This level of activity makes tourism one of the city’s most powerful economic drivers, supporting an estimated 74,000 jobs (3.6% increase from 2011) with an annual payroll of over \$2 billion.
- The city of San Francisco is also proximate to a number of regional attractions, such as the wine growing regions of Napa and Sonoma, the quaint coastal towns of Sausalito, Half Moon Bay and Santa Cruz, and numerous national parks in the surrounding areas. The convenient accessibility to these destinations from San Francisco contributes to the area’s popularity as a leisure destination for both domestic and international visitors.
- In 2013, San Francisco will host events for the America’s Cup international yacht racing competition, including the America’s Cup finals. The America’s Cup is the third largest sporting competition currently in existence behind only the Olympics and soccer’s World Cup; the competition is expected to generate a total economic impact of \$1.4 billion, three times the estimated impact of the Super Bowl.
- The downtown area’s cultural and recreational amenities are extensive and include:

San Francisco Major Attractions		
Alcatraz	Asian Art Museum of San Francisco	Cable Car Theatre
California Academy of Sciences	Chinatown	Curran Theatre
Exploratorium	Fisherman’s Wharf	Golden Gate National Recreation Area
Golden Gate Theatre	Japantown	Louise M. Davies Symphony Hall
M.H. de Young Memorial Museum	Mason Street Theatre	Mission District
North Beach/Little Italy	San Francisco Ballet	San Francisco Giants
San Francisco Museum of Modern Art	San Francisco Opera	San Francisco Symphony Orchestra
SBC Park	The American Conservatory Theatre	Theatre on the Square
Union Square	War Memorial Opera Center	Yerba Buena Gardens

- Among the many things that will keep the momentum going for San Francisco's tourism industry are:
  - The Bay Lights, a fine art piece installed on the western span and viewable from San Francisco and points north. The March 5 launch of the lights was covered by media around the world. Measuring 1.8-miles-long and 500-feet-high, the high-tech light sculpture design features 25,000 individually programmable, energy-efficient LED lights mounted on the bridge's vertical cables. The Bay Lights will remain on the bridge for two years and is projected to add \$97 million to the local economy.
  - On April 17, 2013, the new Exploratorium, San Francisco's internationally acclaimed museum of sciences, art and human perception, opened on Piers 15 and 17, located on San Francisco's historic northern waterfront at Embarcadero and Green streets. The new museum will feature 150 new exhibits, a Bay observatory, outdoor gallery and free civic space.

San Francisco hotel occupancies are at historic highs, although with similarity to SFO North, ADR levels have not kept pace with expense growth for the last decade. As a result, development of new hotels within San Francisco, although needed to satisfy demand, does not make financial sense in 2013 and for years to come. It is anticipated that any significant new hotel supply will not be realized until nearly 2020.

#### 5. Moscone Convention Center

- The Moscone Center offers more than 2 million square feet of building area, including 700,000 square feet of exhibit space and 123,000 square feet of pre-function lobbies. The Moscone Center typically hosts between 40 and 60 "citywide" conventions annually and is able to effectively capitalize on San Francisco's popularity as a visitor destination. Conventions have historically been an important demand generator for San Francisco's economy, generating approximately \$2 billion in visitor spending for the city each year.
- The Moscone Center has historically enjoyed relatively stable convention and meeting statistics. Attendance at professional association conventions remains strong, led by the health and energy sectors. San Francisco's long-term outlook as a preferred convention destination is supported by the high-quality facilities at Moscone Center, excellent air service at the San Francisco and Oakland International airports and the popularity of San Francisco as a leisure destination for convention delegates who wish to extend their trips to the city.

- The Moscone Center recently completed a \$56 million, multi-year renovation in May 2012 that encompassed basic aesthetic improvements such as new carpet and lighting as well as enhanced lobbies, new digital displays and improved elevators and escalators. The project also included accessibility and environmental improvements and LEED Silver certification criteria. The upgrades at the facility are expected to generate increased future convention business.
- Total definite room nights booked remain strong over the next few years, with more than 3.3 million room nights currently on the books from 2012 through 2015. Booking pace through 2014 is exceptionally strong and 2015 is expected to outperform the prior peak of 1 million room nights.
- Based on ongoing and significant demand, Moscone Center will undergo expansion with completion of a reconfiguration and an expansion of nearly 350,000 s.f. by 2017. This will enable Moscone Center to continue to serve existing convention customers with their expanding needs, while reconnecting with new or historical customers who have outgrown the convention center.

Moscone Center Room Nights Booked 2000-2011			
Year	Convention Center	% Change	# of Citywide Conventions
2000	895,984	-	37
2001	950,457	6.1%	39
2002	727,389	-23.5%	39
2003*	919,603	26.4%	47
2004	848,874	-7.7%	63
2005	780,859	-8.0%	62
2006	844,398	8.1%	68
2007	755,898	-10.5%	59
2008	992,843	31.3%	56
2009	853,755	-14.0%	52
2010	778,004	-8.9%	57
2011	834,204	7.2%	60
<b>Total</b>	<b>10,182,268</b>	<b>-</b>	<b>639</b>

\* Moscone West opened in 2003.

Moscone Center Booking Pace 2012-2015					
Year	# of Citywide Conventions	Total Booked Room Nights 5/31/2012	Total Booked Room Nights 5/31/2011	Increase/(Decrease) in Booked Room Nights	% Change in Booked Room Nights
2012	51	869,893	792,126	77,767	10%
2013	40	866,610	817,168	49,442	6%
2014	40	831,883	752,847	79,036	10%
2015	34	804,374	759,318	45,056	6%

Source: San Francisco Travel Association 5/31/2012

6. Union Square

- San Francisco's Union Square has traditionally been the City's leading tourist and shopping attraction. Retail stores such as Macy's, Neiman Marcus, and Saks Fifth Avenue have been the traditional anchor tenants, but now Union Square is going through a further evolution with an influx or expansion of specialty or "vanity" stores.
- The Union Square area in San Francisco's downtown area is defined by Sutter Street to the north, Kearny Street to the east, Taylor Street to the west, and Market Street to the south. The neighborhood has, as aforementioned, begun to meld with the South of Market area with Moscone Center, Metreon, Yerba Buena Gardens, and the San Francisco Museum of Modern Art.
- The Union Square location appeals to both Leisure and Commercial travelers, which makes it exceptionally well suited to the operation of a transient lodging facility and allows the consistency of strong occupancies and average daily rates.
- Union Square is within walking distance of other notable San Francisco neighborhoods and destinations, such as North Beach, Chinatown, Nob Hill, the Financial District, and the Embarcadero.
- For years to come the Union Square area will continue to be San Francisco's hub for retail, entertainment, and cultural activities for local residents and visitors alike, even as it shifts and expands towards the South of Market area.

7. South of Market Area (SOMA)

- The South of Market Area (SOMA) has become the natural overflow from the traditional downtown retail and financial districts, which are now nearly at development capacity. The SOMA area in the last decade has become a convention, cultural, and alternative business center for multi-media enterprise.
- The San Francisco Museum of Modern Art and the Yerba Buena Center, including the Metreon development with movie theatres and retail (Target store), have supplemented the Moscone Center to provide a critical mass for diversified business and cultural activities. Other attractions in SOMA include:
  - AT&T Park
  - San Francisco Museum of Modern Art
  - Contemporary Jewish Museum
  - Museum of the African Diaspora



SOMA district of San Francisco is undergoing a significant urban development. The area spans from Market Street south and east to the San Francisco Bay. SOMA is emerging as the next exciting residential and retail neighborhood in San Francisco, as evident with the many mainstream and independent retailers and residential projects that have developed in the area. The area has become the center for developing social network companies. Commercial vacancy rates have plummeted to nearly non-existent, as this area has become the preferred location for new tech companies.

8. Bay Area Lodging Market

- The Bay Area is one of the largest and most diverse lodging markets in the world. It is also one of the most successful from a demand standpoint with some of the highest occupancies in the country. Unfortunately, ADR setbacks both after the 2001 and 2008 economic declines in conjunction with ever increasing costs for labor wages and benefits the profitability of area hotels to suffer significantly. As profitability sets the metric for establishing hotel values, values of hotels are only now in 2013 eclipsing those sales prices, which were paid in 2000, and are generally 30% - 50% below replacement cost. This has inhibited, and will continue to do so, the development of new hotels. Even as the Bay Area is now in the midst of an economic recovery and the lodging market is poised to experience continued resurgence for the region as a whole, it will be years before there is financial justification and support for significant new hotel development.
- The Bay Area hotel market benefits from a diverse array of demand generators. There is a large traditional corporate presence in the area that generates compression demand into the proposed Sierra Point hotel.
- Due to its size and diversity, the Bay Area lodging market is typically separated into the following sub-markets.
  - San Francisco
  - San Francisco Airport
  - Oakland/East Bay
  - San Jose/Peninsula
  - Marin County
  - Sonoma/Napa County



For the purpose of this report the important sub-markets, which would provide indicators for the SFO North, are as follows

**San Francisco** – Downtown San Francisco is the centerpiece of the region’s hotel market and draws corporate, leisure transient and convention group business. The Financial District is home to many financial service firms and generates a significant amount of corporate and group demand, as well as do the emerging high tech, social networking companies, which are located in the South of Market area. Leisure travelers are drawn to the area due to the presence of Chinatown, the Embarcadero, and Fisherman’s Wharf, among other neighborhoods and individual demand generators. The Moscone Center, San Francisco’s convention center, is the primary generator of convention and large group demand. As such, the market contains a number of full-service and luxury accommodations in addition to focused-service assets that fit the needs of this broad base of demand.

According to PKF Consulting, the San Francisco sub-market occupancy finished at 82.6% in 2012 (versus 82.0% in 2011) with a \$207.23 ADR (\$188.74 in 2011). Through three months in 2013 the San Francisco sub-market achieved at 76.4% occupancy versus 74.0% for the same period in 2012 with a \$203.94 ADR in 2013 versus a \$198.38 ADR in 2012. This would forecast a 2013 yearend achievement of 83% occupancy with a \$215 ADR.

**San Francisco Airport (SFO)** – Primarily comprising of branded full- focused- and limited-service assets, the airport market, which is located in and around the San Francisco International Airport (SFO) and to the south of SFO North, services primarily corporate transient and group demand that comes to the San Francisco area but does not require a downtown location, commercial transient demand from South San Francisco and the Mid-Peninsula, plus leisure transient demand which is price versus location sensitive. Like most airport markets, the SFO hotel market is typically lower-rated than downtown San Francisco and closer on par to suburban hotel markets. The recent and ongoing expansion of SFO will enable a boost in passenger volume, as the growth creates new demand. This should lift and sustain occupancy for this sub-market, and SFO will be taking advantage of that by building their own hotel to be operated by a national brand. This hotel development is only feasible, as the land is already owned by the airport and the financing will come completely from public bonds.

According to PKF Consulting, the San Francisco Airport sub-market occupancy finished at 82.2% in 2012 (versus 81.2% in 2011) with a \$136.72 ADR (\$119.52 in 2011). Through three months in 2013 the San Francisco Airport sub-market achieved at 75.7% occupancy versus 77.8% for the same period in 2012 with a \$135.71 ADR in 2013 versus a \$127.81 ADR in 2012. This would forecast a 2013 yearend achievement of 81% occupancy with a \$148 ADR.

**Oakland/East Bay** – The Oakland/East Bay market is diverse, the City of Oakland has a traditional mix of Commercial, Group, and Leisure segment business, which is serviced through full-service, select service, and limited service branded hotels, while the sub-markets with mostly select and limited service hotels sprawl north and south and include more typically suburban demand profiles from local Commercial segment demand generators. These include bio-tech and University of California Berkeley in the north to high tech in the entrance to the Silicon Valley to the south.

According to PKF Consulting, the Oakland/East Bay sub-market occupancy finished at 72.6% in 2012 (versus 67.6% in 2011) with a \$103.46 ADR (\$96.10 in 2011). Through three months in 2013 the Oakland/East Bay sub-market achieved at 66.3% occupancy versus 66.0% for the same period in 2012 with a \$104.65 ADR in 2013 versus a \$99.20 ADR in 2012. This would forecast a 2013 yearend achievement of 72.6% occupancy with a \$109 ADR.

**San Jose/Peninsula** – The San Jose/Peninsula market is heavily dependent on the transient corporate traveler who visits area companies including Intel, Cisco Systems, Oracle, and Facebook, among others. This market is the home to Silicon Valley, the nation’s largest concentration of high-tech firms. Hotels in the San Jose/Peninsula market are still rebounding from the most recent 2007 – 2010 decline with occupancy recovery but less than substantial ADR levels, as the area economy continues to grow.

According to PKF Consulting, the San Jose/Peninsula sub-market occupancy finished at 75.4% in 2012 (versus 72.1% in 2011) with a \$138.42 ADR (\$127.82 in 2011). Through three months in 2013 the San Jose/Peninsula sub-market achieved at 71.7% occupancy versus 72.0% for the same period in 2012 with a \$151.14 ADR in 2013 versus a \$139.72 ADR in 2012. This would forecast a 2013 yearend achievement of 75% occupancy with a \$150 ADR.

## San Mateo County

### 1. Overview

- The Sierra Point hotel development site is located within the San Mateo County submarket, specifically within San Mateo County. San Mateo County is situated between the Pacific Ocean to the west, San Francisco County to the north, Santa Clara County to the south, and the East Bay. Today, San Mateo County is one of the Bay Area’s most dynamic economic regions benefiting from a well-diversified tenant base, strong demographic profile, convenient access to the nation’s best academic institutions, proximity to venture capital investment, and a highly centralized location anchored by Highway 101 to the East and Interstate 280 to the West.

Regional Highlights:

- San Mateo County encompasses approximately 449 square miles with a total population of over 720,000;
- The county is centrally located, providing convenient regional access to major employment centers throughout the Bay Area including Downtown San Francisco and Palo Alto, as well as the San Francisco International Airport;
- Highly educated residents with over 26% holding a bachelor’s degree;
- Average household income 59% over the national average.

2. Economy and Employment

- Major new business sectors supporting the region’s economy today include: software development, biotechnology, computing, life science and research and development across a broad array of technology sectors. This is in addition to traditional industries such as transportation and financial services. The Peninsula enjoys a remarkably diversified industry base, which has consistently proven to be resilient through economic downturns.

Major San Mateo County Employers			
Company	Sector	Location	Number of Employees
United Airlines	Transportation	Various	9,600
Genentech Inc.	Biotechnology	South San Francisco	8,250
Oracle Corporation	Software	Redwood Shores	5,642
County of San Mateo	Government	Redwood City	5,443
Kaiser Permanente	Health Care	San Mateo	3,780
SRI International	Research/Technology	Menlo Park	2,100
Electronic Arts	Software	Redwood City	2,000
San Mateo County Community College District	Education	San Mateo	1,950
Mills-Peninsula Health Services	Health Care	Burlingame	1,800
Stanford Linear Accelerator Center	National research	Menlo Park	1,500

Source: Profile -County of San Mateo 2009-2011

- The unemployment rate in the San Francisco-San Mateo-Redwood City MD was 5.8% in March 2013, below the year-ago estimate of 7.4%. This compares with an unadjusted unemployment rate of 9.4% for California and 7.6% for the nation during the same period. The unemployment rate was 5.2% in Marin County, 6.0% in San Francisco County, and 5.7% in San Mateo County.

- Over the years, San Mateo County has benefited from tremendous economic growth due to some notable factors:
  - High quality inventory of Class “A” lab and office space;
  - Most locations in Brisbane and South San Francisco are less than twenty minutes from San Francisco International Airport and 30 minutes from Downtown San Francisco;
  - Close proximity to Highway 101, the main arterial connecting Downtown San Francisco to Silicon Valley;
  - Inventory of affordable housing relative to San Francisco and Palo Alto;
  - Convenient drive to numerous shopping centers, including the Serramonte and Tanforan malls and within walking distance to various hotels and recreational amenities;
  - Public transportation access with BART and Caltrain services nearby;
  - Centralized location that allows firms to pool resources from San Francisco, the financial capital of the West Coast, and Silicon Valley, the international center for technology
  - Access to venture capital investment with the Bay Area comprising over one third of all venture capital investments nationwide; and
  - Opportunity to collaborate with world-class biomedical scientists from a number of research institutes and nationally ranked universities.

There is a total of approximately 29 million square feet of life science product in the Bay Area, with the largest percentage (45%) of that square footage coming from San Mateo County. The largest and most notable biotechnology clusters include South San Francisco, along with San Francisco’s Mission Bay and then Redwood City. These three areas are home to the industry’s premier list of companies, including Genentech, Gilead Sciences, Bayer, Applied Bio, Exelixis, Genencor, and Amgen. These companies benefit from the Bay Area’s direct access to venture capital investment funds and access to two of the brightest research institutions in the nation: Stanford University and UC Berkeley. Most of these are located within a short drive to the subject Sierra Point hotel site, but are equally or even more accessible to hotels in downtown San Francisco, Oyster Point and south of San Francisco Airport.

### 3. San Mateo County/San Francisco Peninsula Office Market Overview

- The following are highlights of the first quarter 2013 San Francisco Peninsula office market, as reported by CBRE.

- The San Francisco Peninsula office market posted slightly negative absorption, but exhibits evidence of growing activity throughout 2013. Although the Peninsula recorded a very slight negative net absorption, tenant activity remains elevated and average asking rates continue to record a stable rate of growth. Landlords report that although leasing volume was low, transactions are in motion for a number of available spaces and tenants are becoming much less tenuous in their real estate decisions.
  
- Overall vacancy in the office market remained relatively flat, however, competition for available space has grown significantly. Twenty three companies have entered the market looking for spaces of 50K SF or more, an increase of 45% of tenants in this size range in the past three months. With multiple properties having over 50K SF of vacant space in the Peninsula, there is strong potential for high volume transactions in the succeeding quarters.
  
- Activity remained healthy over the first quarter, largely due to the eight transactions of over 20K SF that were signed. The largest of these transactions of the quarter was located in the Palo Alto as Hogan and Lovells law firm leased 39,101 SF of class A office space at 4085 Campbell for 10 years. The length of this transaction highlights a growing trend in the Peninsula as the majority of leases signed in the past three months have a term of five years or longer.
  
- Sales activity in the office market remained slow in the first quarter as owners look to capitalize on potential lease opportunities with the rising rental rates. Only four office sales took place in the first quarter, three of which were office/industrial mixed multi-property sales. The only individual property sale was WVP Bay Tech, LLC's purchase of the 71K SF building at 150 N Hill Drive in Brisbane. The Class B office building sold for \$165/SF after it was listed on the market for over 450 days.
  
- Activity in the San Francisco Peninsula office market increased considerably at the end of the first quarter. Leasing activity has stayed consistently active quarter over quarter and as the nation's economy steadily improves and the local technology sector continues to surge, the office market should progress with a more stabilized rate of growth. The San Francisco Peninsula office market seems poised to further grow with rates continuing to rise and along with an improving deal velocity.

**TOTAL OFFICE MARKET STATISTICS  
SAN FRANCISCO PENINSULA, CALIFORNIA**

SUBMARKET	NET RENTABLE AREA	TOTAL VACANCY %	TOTAL AVAILABILITY %	AVERAGE ASKING RATE*	Q1 NET ABSORPTION	YTD NET ABSORPTION
Daly City/Brisbane	2,186,577	37.4%	38.0%	\$2.70	2,294	2,294
Class A	1,243,742	52.3%	52.3%	\$3.10	1,709	1,709
South San Francisco	2,882,841	16.5%	22.4%	\$2.96	52,524	52,524
Class A	2,350,997	18.5%	25.7%	\$3.15	75,341	75,341
San Bruno/Millbrae	1,759,464	8.0%	8.9%	\$2.59	(8,237)	(8,237)
Class A	687,394	1.9%	1.9%	\$2.95	9,053	9,053
Burlingame	2,476,538	10.2%	12.2%	\$2.23	12,424	12,424
Class A	758,479	13.7%	16.5%	\$2.75	16,655	16,655
North Peninsula	9,305,420	18.1%	20.8%	\$2.64	59,705	59,705
San Mateo	6,917,702	12.2%	16.7%	\$2.95	(170,027)	(170,027)
Class A	3,369,892	11.8%	15.6%	\$3.35	(105,197)	(105,197)
Foster City	3,222,388	7.2%	18.1%	\$3.60	(2,659)	(2,659)
Class A	2,701,150	2.7%	15.7%	\$3.75	(18,324)	(18,324)
Belmont/San Carlos	1,348,711	14.0%	17.2%	\$2.78	4,381	4,381
Class A	695,774	12.2%	17.6%	\$3.05	(3,786)	(3,786)
Redwood City/Redwood Shores	7,978,211	8.7%	12.5%	\$3.73	82,979	82,979
Class A	5,786,799	10.2%	14.9%	\$3.95	19,020	19,020
Central Peninsula	19,467,012	10.1%	15.2%	\$3.37	(85,326)	(85,326)
Menlo Park	4,615,059	5.9%	7.9%	\$6.15	45,797	45,797
Class A	1,564,490	3.5%	5.6%	\$8.85	23,390	23,390
Palo Alto/East Palo Alto	6,772,869	6.6%	6.9%	\$6.45	(67,615)	(67,615)
Class A	2,967,211	8.9%	9.1%	\$7.75	(9,015)	(9,015)
South Peninsula	11,387,928	6.3%	7.3%	\$6.33	(21,818)	(21,818)
SF PENINSULA MARKET	40,160,360	10.9%	14.3%	\$4.04	(47,439)	(47,439)

\* Direct Monthly Lease Rates, Full Service Gross

Source: CBRE | San Francisco Peninsula Office MarketView | 1Q 2013

## City of South San Francisco

### 1. Overview

- South San Francisco is a city in San Mateo County. The city lies north of San Bruno and San Francisco International Airport in a small valley south of Daly City, Colma, Brisbane, and San Bruno Mountain, east of Pacifica and the hills of the Coast Range, and west of the waters of San Francisco Bay. Locals often refer to the town as "South City," in much the same way that San Francisco is called "The City." People unfamiliar with the area often mistake "South San Francisco" as the southern part of the city of San Francisco. The city of South San Francisco is not contiguous with the city of San Francisco due to the city of Brisbane being between them.

- As of 2010 census, the city of South San Francisco has a population of 63,632. Based on the published results in 2011, the city's population grew to 64,409 or 1.2%. The 2010 census reported a racial makeup of South San Francisco, as follows:
  - White: 23,760 (37.3%)
  - African American: 1,625 (2.6%)
  - Native American: 395 (0.6%)
  - Asian: 23,293 (36.6%)
  - Pacific Islander: 1,111 (1.7%)
  - Other Races: 9,598 (15.1%)
  - Two or more races: 3,850 (6.1%)

Hispanic or Latino of any race were 21,645 persons (34.0%).

- The city is served by two major highways, Highway 101 (the Bayshore Freeway) and Interstate 280. A BART station opened in South San Francisco in 2003, supplementing Caltrain service to San Francisco and San Jose. The city's small downtown and several aging residential subdivisions, such as Sunshine Gardens, Avalon Park, Winston Manor, and Rancho Buri Buri, are located west of Highway 101, while the area east of Highway 101 is dominated by bland industrial complexes interspersed with futuristic office parks, particularly the Oyster Point Marina.

As of May 2013 the Water Emergency Transportation Authority continues to operate a ferry service between Oyster Point Marina and the east bay cities of Oakland at Jack London Square and Alameda at the Main Street ferry terminal. The ferry service operates on an erratic schedule and during weekday commute hours only.

- The extreme western portions of the city near Interstate 280 sit along a hillside and offer views of San Francisco Bay. This area is known to local residents as Westborough. The southern part of the city, closest to the airport, is home to a large number of car repair shops, airport parking lots, and airport hotels. With the South San Francisco BART station in place, residential developments have begun surrounding the station, forming a transit village.



2. Economy and Employment

- South San Francisco, which is less than a mile geographically but 3.5 miles in travel from the Sierra Point hotel site, is known as the birthplace of the biotechnology industry and is home to one of the highest concentrations of commercial biotechnology companies in the world. Genentech has become one of the world’s leading biotech companies, employing over 8,500 people (~6,000 in South San Francisco) and continues to expand its employee base and campus (approximately 5 million square feet of leased and owned space currently). There is a Genentech-sponsored sign declaring South San Francisco to be the "Birthplace of Biotechnology."
- The flat land east of Bayshore Freeway (US 101) is the R&D Campus of South San Francisco and carries on the tradition of the moniker on Sign Hill, "The Industrial City."
- South San Francisco is home to one Fortune 500 company, food wholesaler Core-Mark. Many other biotech companies, such as Exelixis, have also started or moved to South San Francisco to be in proximity to the UCSF, Stanford University, and UC Berkeley; all are within a one hour's drive. The headquarters factory of See's Candies is located in South San Francisco. Air China operates an office in South San Francisco.
- According to the San Francisco Business Times 2012 Book of Lists, 10 of 25 largest biopharma companies in the greater Bay Area are located in South San Francisco:

Largest Biopharma Companies South San Francisco			
Company	Research Fields	Bay Area Employees	Fiscal 2010 Revenue (\$000)
Genentech Inc.	Oncology, immunology, neuroscience	9,300	\$11,724,000
Amgen Inc.	Oncology, inflammation, anemia	460	\$15,053,000
Monogram Biosciences Inc.	Infectious diseases and cancer	382	NA
Elan Pharmaceuticals Inc. *	Neuroscience	350	843,000
Theravance Inc.	Antibiotics	311	\$24,220
Exelixis Inc.	Cancer and metabolic diseases	240	\$185,040
Onyx Pharmaceuticals Inc.	Liver, kidney, breast, lung, thyroid cancers	200	\$324,510
Janssen Alzheimer Immunotherapy R&D LLC	Alzheimer’s	180	NR
Rigel Pharmaceuticals Inc.	Inflammatory, autoimmune diseases	152	\$750,000
Cytokinetics Inc.	Muscle function	148	\$760,000

Source: San Francisco Business Times 2012 Book of Lists

Much of the Commercial segment demand for South San Francisco and Brisbane hotel rooms come from the companies, which are listed in the above table.

Other major employers in the city include the following:

Employer	Number of Employees
Costco	488
Royal Laundry	305
Bimbo Bakeries USA	304
Janssen	206
Onyx Pharmaceuticals	200
Guckenheimer	200
Columbus Salame*	191
Matagrano	185

\* Columbus Salame moved its processing facility to Hayward, California in 2011.  
 Source: City of South San Francisco 2011 Comprehensive Annual Financial Report.

Most of the smaller industrial companies in the above chart, excepting Onyx, do not generate any demand for hotel rooms in the immediate area.

- Unemployment rate in the city fell to 7.0% in March 2013 compared to 8.8% for the same period in 2012. On an annual basis, unemployment rate showed a steady decline since 2011 as shown in the following table:

Labor Force Data South San Francisco, California				
	Labor Force	Employment	Unemployment	Unemployment Rate
March 2013	33,300	31,000	2,300	7.0%
March 2012	32,900	30,000	2,900	8.8%
2012	33,100	30,400	2,700	8.3%
2011	32,300	29,200	3,100	9.7%
2010	31,700	28,300	3,400	10.7%
2009	31,500	28,300	3,200	10.3%
2008	31,200	29,300	1,900	6.0%

Source: California EDD, Labor Market Information Division

This is a positive indication that continued growth in companies and employment is expected in South San Francisco.

- On Site Ferry Terminal - The new \$40 million Oyster Point Ferry Terminal has commenced service to ferry terminals in Alameda and Oakland. This ferry terminal has provided an added amenity and further enhanced the local market’s accessibility.

3. South San Francisco Conference Center

- The South San Francisco Conference Center is centrally located on the leading edge of the Bay Area's biotech region, just one mile north of the San Francisco International Airport and 15 minutes from downtown San Francisco.
- It is an affordable venue created exclusively to host meetings and events. Nearby, the Conference Center's hotel partners offer reasonably priced accommodations making it easy to house groups and extend stays. Unfortunately, the Conference Center has little impact on demand for hotels, which are located in the Oyster Point and Sierra Point neighborhoods. This is a complaint from South San Francisco hotels, which support the operation of the SSF Conference center through a business improvement district ("BID"), but receive little benefit from their contribution to the BID.
- The Conference Center features:
  - Facility: Grand Ballroom (13,500 sq. ft.) splits into 10 rooms, Baden Room (3,000 sq. ft.) divides in half: 6,300 sq. ft. of lobby and pre-function space
  - Services: On-site catering and audio visual services; high speed Internet connections throughout; smoke-free; fully carpeted; ADA compliant; complimentary parking; 24-hour security
  - Accommodations: 3000+ guestrooms close by hotels

**City of Brisbane**

- Brisbane is a small city located in the northern part of San Mateo County, on the lower slopes of San Bruno Mountain. It is on the northeastern edge of South San Francisco, next to the San Francisco Bay and near the San Francisco International Airport. Brisbane is called "The City of Stars" because of a holiday tradition established over 65 years ago when at the start of the Christmas/Hanukkah season many residents and business owners place large, illuminated stars, some as big as 10 feet or more in diameter, on the "downhill" sides of homes and offices throughout Brisbane.



- As of the 2010 census, Brisbane has a population of 4,282. The 2010 census reported a racial makeup of Brisbane, as follows:
  - White: 2,578 (60.2%)
  - African American: 80 (1.9%)
  - Native American: 21 (0.5%)
  - Asian: 1,084 (25.3%)
  - Pacific Islander: 41 (1.0%)
  - Other Races: 182 (4.3%)
  - Two or more races: 296 (6.9%)

Hispanic or Latino of any race were 712 persons (16.6%).

- The main arterial road serving Brisbane is Bayshore Boulevard. The boulevard continues north to San Francisco and south to South San Francisco and SFO. U.S. Route 101 also goes past the city on the eastern side adjacent to San Francisco Bay. SamTrans provides bus service through the city along Bayshore Boulevard. Shuttles connecting to nearby BART, Muni T-Third Street line and Caltrain stations are available to residents and employees in the city.
- The City of Brisbane is in close proximity to major urban areas: San Francisco (downtown) – 7 miles, Oakland – 20 miles, San Jose – 45 miles.
- The subject Sierra Point hotel development site is situated on the San Francisco Bay in the city of Brisbane. It is located nearby to large life sciences, bio-tech, and hi-tech corporate employment concentrations in South San Francisco and just seven miles south of the center of the City of San Francisco.
- Vehicular access is challenging and convoluted from the north and to the south on Highway 101 due to pre-existing freeway configurations.

## 2. Economy and Employment

- Brisbane's economy is dominated by office parks at Sierra Point and an industrial park around the Valley Drive corridor. There are commercial areas at Brisbane Village, Visitacion Avenue, and Bayshore Boulevard. Some of the larger office tenants in Brisbane are Cutera (Medical Lasers), IGN, Dolby, Tercica, Sing Tao, and Intermune. Monster Cable Products and bebe stores (traditionally spelled in lowercase) are headquartered in Brisbane on Valley Drive. The Sierra Point office park area is home to a number of well-known class A office buildings like the Dakin Building.
- Significant projects are planned for the near future at Sierra Point, which will create nearly one million square feet of life science and/or office use once completed (3000 Marina Boulevard and South Shore Bio-tech Campus). The development sites are some of the few remaining fully entitled sites and are ideally situated to capitalize on the northern migration of tech requirements from Silicon Valley as well as the continued organic growth in the biotech submarket. The subject Sierra Point hotel would be ideally positioned, when the projects are completed and leased, to capture additional demand to be generated by the continued growth in the region. These projects are as follows:
  - Sierra Point Biotech Project - The City of Brisbane has approved for the 22.8-acre Sierra Point Biotech Project, a biotech office complex totaling approximately 540,185 square feet in five buildings, 15,000 square feet of retail, a 5-level, 961-space parking structure, and 850 surface parking spaces. Currently grading work has started on the project. The Sierra Point hotel site is located directly north and across the street from the project.
  - Opus Center Sierra Point - The City has granted approvals for a Class A, LEED SILVER office project within the Opus Center Sierra Point office and R&D campus at 3000-3500 Marina Boulevard, Brisbane. The project will construct two office buildings totaling 448,000 square feet, which, combined with Opus West's completed projects in the premier office park, totals 1.5 million square feet.
- In addition, The City of Brisbane presented an outline of the pending medium to large scale development projects and sites within the Brisbane planning area, as follows:
  - Baylands: Commercial Project. A Specific Plan was submitted by the property owners for the Baylands in 2006 and is in process. The Baylands consists of approximately 541 acres between U.S. 101 and Bayshore Boulevard, from the Brisbane Lagoon to Beatty Avenue.

– Residential Projects:

- Northeast Ridge: 71 homes on 16.67 acres received final planning application approvals (including vesting tentative map approval) by City Council on February 16, 2010. The 71 homes represent the final phase of development for Landmark at the Ridge. Upon completion of this final phase, the Northeast Ridge will total 499 housing units plus playgrounds, common areas, Mission Blue Center, a tennis court and a baseball field.
- 3710-3760 Bayshore Boulevard: Planning approvals were granted in 2005 for a 30 unit residential condominium complex on 2.9 acres. Application for a building permit was submitted in 2010.
- 3700 Bayshore Boulevard/End of Santa Clara Street: A tentative Subdivision Map has been submitted for 36 condominium units on 1.3 acres in the Southwest Bayshore Commercial District (SCRO-1) and 21 single-family lots on 4.5 acres in the Brisbane Acres Residential District (R-BA). This proposal includes density transfer from the upper Brisbane Acres. A Planning Commission hearing date has not been set for this project.
- 661 San Bruno Avenue: This 4-unit condominium project first received approval of the planning applications in 2004 and approvals were extended for another 2 years in 2010. The project is proposed on an approximately 6,874 sq. ft. site.

– Other Potential Sites:

- 1 Quarry Road: The Quarry is within Brisbane's sphere of influence, south of Crocker Park. It has operated since 1895. The subarea, including undisturbed areas, totals approximately 144 acres. Its General Plan designation is Planned Development-Trade Commercial & Open Space (subject to annexation/pre-zoning).

(Source:<http://www.ci.brisbane.ca.us/outline-potential-development-projects-sites>)

- Brisbane's daytime population is larger than its residential population because of the workforce that commutes into the community. According to the City of Brisbane 2011 Comprehensive Annual Financial Report, the top employers in the city are as follows:

City of Brisbane Top Employers	
Employer	Number of Employees
Pepsi Beverages Company	380
Recology	350
IGN Entertainment	305
Cutera Inc.	276
VWR	272
BiRite Foodservice Distributors	259
XOJET	250
Monster Cable Products	231
Expeditors International	223
CollabNet	212
Fong Brothers Printing	190
Shopping.com	175
bebe	140
Lincoln Broadcasting Co.	120
Pitney Bowes Presort Services	117
InterMune	106
Purcell Murray	105
Hitachi America	99
SFO Apparel	99
Aircraft Technical Publishers (ATP)	97

## COMPETITIVE LODGING PROFILE

### Summary

The hotels representing direct competition for the subject Sierra Point hotel site are all within five miles of the property. The primary competitive set includes hotels in Brisbane (Radisson, Homewood Suites) and South San Francisco (Embassy Suites, Hilton Garden Inn, Courtyard by Marriott, Four Points by Sheraton). There is secondary competition in South San Francisco, including the Residence Inn, Larkspur Landing, Hampton Inn, Comfort Inn, Holiday Inn, Best Western Grosvenor Hotel, and Inn at Oyster Point, but these hotels, either due to their business mix, market targets, or size, would not be considered the primary competition for the subject hotel.

There is significant hotel guest room supply in South San Francisco. This supply is primarily in the economy, extended stay, and select service categories, mostly without food and beverage segments with the exception of the Embassy Suites and Radisson Hotel. The South San Francisco area guest room inventory primarily serves the corporate headquarters (ex. Genentech) and other bio-tech/life science companies in that neighborhood. Secondly, there is significant demand from tourism for San Francisco, as a result of overflow from the City or price resistance to hotels in the San Francisco downtown area. Additionally, there is some SFO related demand with distressed passengers, park and fly packages, United Airlines maintenance, and government, but all at significantly discounted room rates. Further south on the Mid-Peninsula there is hotel room inventory in Burlingame ( Westin, Hyatt, Hilton, Marriott, Doubletree, etc.) with primarily large format, full-service hotels with meeting space, Foster City (Crowne Plaza), San Mateo (Marriott), and Redwood Shores/Redwood City (Sofitel), which supports corporate transient and group demand in those areas.

### Sierra Point Hotel Competitive Set

The subject's SFO North primary competitive set includes the following six properties, which compete to varying degrees, depending on location, quality, rate structure, etc., in the San Mateo lodging market:

- Radisson Hotel (210 rooms) – Brisbane
- Homewood Suites Hotel (177 rooms) – Brisbane
- Courtyard by Marriott Hotel (198 rooms) – South San Francisco
- Embassy Suites Hotel (312 rooms) – South San Francisco
- Four Points by Sheraton Hotel (100 rooms) – South San Francisco
- Hilton Garden Inn (169 rooms) – South San Francisco

The following paragraphs briefly describe the primary competitive set properties. Additional information is presented in Appendix A – Competitive Property Profile.



- **Radisson Hotel** (5000 Serra Point Parkway – Brisbane) – This hotel was opened in July 2000, just as the surrounding San Francisco Bay Area, including the surrounding SFO North neighborhood, was about to fall into a significant economic decline. It has never met its anticipated economic value and currently is mostly likely not valued at its replacement cost. The hotel is well maintained, while it provides a full service standard, according to the terms and conditions of its Radisson franchise.

Services and amenities include one full service restaurant, a cocktail lounge, and an indoor pool. The hotel features 3,900 s.f. of meeting space, which includes 1,500 s.f. divisible function rooms, plus multiple breakout rooms. The hotel has free, outdoor parking.

The hotel's location is positive for the few bio-tech firms within the immediate Sierra Point neighborhood, but it is generally inferior due to its inconvenient access to Oyster Point businesses, SFO, and San Francisco. There are no other guest service amenities, including full-service restaurants or retail, in the Sierra Point neighborhood. The average length of stay on weekdays, which include mostly Commercial segment travelers, is between one and two nights, while San Francisco generated leisure stays are over two nights.

The Radisson achieves comparable occupancy to the overall competitive set, however its ADR levels are generally more than ten dollars below the aggregated ADR of the competitive set due to the hotel's need to discount and attract market share in that fashion, as a result of its location. The hotel's business mix is in a range as follows: Commercial (35% - 40%), Leisure/Discount (35% - 40%), and Group (15% - 20%). The hotel's competitive strength is its full-service operation. Typical of the area, the hotel operates with more Commercial segment business on weekdays and then Leisure segment business on weekends with added demand between April and November due to tourism demand from San Francisco.

The Radisson's primary competitive weaknesses are its location and weaker brand.

- **Homewood Suites** (2000 Shoreline Court – Brisbane) – This hotel was opened in December 2002, as an extended stay hotel. It has been plagued by local and national economic declines and building infrastructure issues. It is directly next door to the south of the Radisson in Brisbane. It would only be considered as a direct competitor to the subject hotel because of its location in Sierra Point and as only between 40% and 45% of its business mix is actually extended stay customers. Its 177 guest rooms are primarily studio suites, which are only slightly larger than typical hotel rooms, but these feature kitchen amenities, which would enable an extended stay for a guest. There are no two bedded rooms in the hotel with 60% queen beds and 40% king beds. This hotel is typical of a Hilton branded Homewood Suites, according to brand service standards. The hotel is well-maintained.

There are limited amenities with the exception of a quick service food operation and an indoor pool plus 250 s.f. fitness area. The hotel features 700 s.f. of meeting space. The hotel features free parking in an open parking lot.

The hotel's location is positive for the few bio-tech firms within the immediate Sierra Point neighborhood, but it is generally inferior due to its inconvenient access to Oyster Point businesses, SFO, and San Francisco. There are no other guest service amenities, including full-service restaurants or retail, in the Sierra Point neighborhood. The average length of stay is more than two weeks for over 40% of its guests, while as typical with Commercial hotels, the weekday average stay includes less than two nights and Leisure guests on weekends and during heavy vacation seasons stay over two nights.

The Homewood Suites achieves a comparable, although lower, occupancy to the general competitive set, while its rooms rates are lower than most of the competitive set hotels due to its location and the need to discount to attract demand. Between 45% and 55% of demand is from the extended stay segment, which includes customers from companies with long term research or construction projects in the area, while the remainder is split fairly evenly between the Commercial and Leisure transient segments. There is less than 5% Group segment demand. The hotel's competitive strength is its brand name, frequent guest program, and extended stay oriented accommodations. Extended stay demand is consistent seven days a week, while Commercial and Leisure transient follow neighborhood weekday and seasonal demand patterns.

The Homewood Suites' competitive weakness is its location, which is inconvenient to most demand generators.

- **Courtyard by Marriott Hotel** (1300 Veterans Boulevard – South San Francisco) – The hotel was opened in December 2000, just in time for the economic decline of 2001. It is Marriott managed and operated according to brand standards, including the Marriott frequent guest program, which provides a distinct competitive advantage. The hotel is well maintained with guest room renovation in 2012.

Services and amenities include a quick service food operation, a cocktail lounge, and an indoor pool. The hotel features 1,825 s.f. of meeting space. The hotel offers free parking in an open parking lot.

The hotel's location is superior due to its convenience to SFO and local demand generators in the SFO North areas. The customer base is more interested in convenience than local amenities of which there are few. As with the other airport hotels, the average stay is one night for transient guests, two nights for group customers, and more than two nights for tourists.

The Marriott achieves a slightly lower than competitive set occupancy, as it has chosen to be a room rate leader in the area, which has sometimes deferred business to other competitors with lower room rates. As a result, the Courtyard has the second highest ADR in the competitive versus the Embassy Suites, which is both full-service, offers complimentary breakfast and other items, and features an all-suites guest room product.

Approximately 55% - 65% of total demand is generated from the Commercial segment, while the remainder is from the Leisure (25% - 30%) and Group (5% - 10%) segments. The hotel's competitive strength is its brand name, frequent guest program, high quality accommodations, meeting space, and location convenience. The Commercial segment demand is Monday through Thursday only, where occupancies range from 77% upwards, while the Leisure follows the typical weekday and seasonal demand patterns of the SFO neighborhood.

The Courtyard's only competitive weakness is its location, which is slightly dislocated from the primary commercial business locations (ex. Genentech) on Gateway Boulevard in Oyster Point.

- **Embassy Suites Hotel** (250 Gateway Boulevard – South San Francisco) – This hotel was opened in 1988 and franchised by Embassy Suites in 1995. Its guest rooms are prototypical Embassy Suites guest rooms, which are well maintained but showing the age of the building's era. It is managed and operated according to brand standards and offers Hilton Honors frequent guest rewards, which is a competitive advantage.

Services and amenities include one full service restaurants and a cocktail lounge. The hotel includes only 8,400 s.f. of meeting space. The largest meeting room is 2,000 s.f. The hotel has an open parking lot.

The hotel's location is superior due to its convenience to SFO and local demand generators in the South San Francisco. The customer base is more interested in convenience than local amenities of which there are few.

The Embassy Suites is the best performer from an occupancy and ADR standpoint in the immediate competitive area. It achieves its fair share of occupancy of over 80%, while its ADR is the highest within the competitive set. Approximately 40% - 50% of demand is generated from the Commercial segment, while the remainder stems from the Leisure (20% - 25%) and Group (25% - 30%) segments.

Its primary competitive advantages are those associated with an all-suites hotel: oversized guest room with separate living room and sleeping area, free breakfast, complimentary cocktail hour, etc., and Hilton Honors frequent guest program. Its weakness is its age and deferred capital in guest rooms, which have changed little in recent years. The Commercial segment dominated demand between Monday through Thursday, while Leisure demand is consistent with other competitors in the area

during weekends and throughout the May through November tourism season. Group segment demand is mostly related to local corporate activity.

- **Four Points by Sheraton** (264 South Airport Blvd – South San Francisco) – The Sheraton has 100 guest rooms, and it is a typical airport hotel. The hotel was opened in 2001. It is independently managed franchise and operated according to Four Points by Sheraton brand standards. Similar to many hotels in the airport area, its room product is small. The hotel's service standard is minimal. There is no meeting space, and the demand stems from local Commercial segment demand, airport generated demand, and discount oriented tourism. The hotel is well maintained. The primary competitive values of the hotel are its freeway location with easy access to the airport or points north to Oyster Point and San Francisco, as well as its Starwood affiliation with its frequent guest rewards program.

Services and amenities include a small bistro pub restaurant for breakfast and dinner. There is a small fitness room. There is no meeting space.

The hotel is located one freeway exit on Highway 101 to the north from San Francisco Airport, and it is easily accessible from that conduit. The customer base is more interested in convenience than local amenities of which there are few. As with the other airport hotels, the average stay is one night for transient guests and two nights for group customers.

The Four Points achieves the highest occupancy and the lowest ADR in the competitive set. The hotel's strategy is based on generating volume through rate discounting, which creates significantly high occupancies. Approximately 30% - 40% of demand is generated from the Commercial segment; the remainder from the leisure/discounts (45% - 55%) and group (less than 5%) segments. Included in the discount segment are distressed passengers and other related airport demand. The hotel's competitive strength is its brand name, frequent guest program, rate value, and location convenience.

As with other hotels in the competitive set, Commercial segment demand is heaviest during the weekday, while Leisure and discounts are strongest on weekends and during the heaviest tourist seasons.

- **Hilton Garden Inn** (670 Gateway Boulevard – South San Francisco) – The Hilton Garden Inn is brand typical with 169 rooms and 1,400 s.f. of meeting space. The hotel was built in 1999. Services and amenities include a two meal limited menu All American Grille restaurant, a cocktail lounge, and a 550 s.f. fitness room.

The hotel's location is extremely advantageous, as the Genentech campus is across the street, while there is easy access to Highway 101 to the north and south with convenience to SFO and local demand generators in the South San Francisco area. The customer base is more interested in convenience than local amenities of which there are few.

The Hilton Garden Inn achieves its fair share of occupancy and ADR within the competitive set. Approximately 60% - 65% of demand is generated from the Commercial segment; the remainder from the Leisure (20% - 25%) and Group (less than 10%) segments. The hotel's competitive strength is its brand name, frequent guest program, and location convenience. The Commercial demand is Monday through Thursday only, while Leisure demand is typical to other hotels within the competitive set with activity on weekends and during high tourism seasons.

There is other secondary hotel competition within the Brisbane and South San Francisco. These are clearly segmented and include extended stay (Residence Inn and Larkspur Landing Hotel), full service mid-scale (Holiday Inn, Best Western Grosvenor), limited service (Holiday Inn Express, Comfort Inn, Hampton Inn), and upscale boutique (Inn at Oyster Point). With the exception of the extended stay hotels, most have similar business demand segmentation to the primary upscale competitive set, however they are more influenced by the discount leisure segment, tour groups, and airport related demand. The extended stay hotels focus on large contract business from construction crews (ex. PG&E) or project related demand with high average length of stays. The outlier is the Inn at Oyster Point, which is an upscale, full service boutique hotel, which has a similar demand pattern to the primary upscale competitive set, except that it is influenced by its adjacent banquet hall, which stimulates local social business.

The greatest competitive alternative to the SFO North market is the SFO South full-service upscale hotel neighborhood in Burlingame. These hotels are mostly larger full service convention hotels, which rely heavily on the Group segment, as well as the Commercial and Leisure segments, which frequent SFO North. SFO South also caters more to airline crews, tour groups, and other airport related demand. Products and services are significantly broader in the SFO South hotels. As there are more entertainment, retail, and restaurant options in the SFO South area, a significant portion of Commercial segment demand, which is stimulated by South San Francisco companies opt to stay in that area versus SFO North.

### Growth in Supply

Anticipated growth in supply arrived in the SFO North area beginning in 1999. South San Francisco/Brisbane/San Bruno expansion was due primarily to anticipated demand from the expanded airport and new gates, as well as new commercial office development in the Oyster Point and Sierra Point area. Additionally, the area anticipated the opportunity to capture overflow demand from San Francisco due to continued unsatisfied demand, customer resistance to high guestroom rates, and relatively little anticipated downtown room inventory growth. All of these expectations were not met after the 2001 downturn, and although there was some recovery by 2007, there was another drastic decline in 2008. As a result, the "new" inventory from the turn of the century has never economically stabilized for the most part to allow adequate returns on investment to their owners.

The inventory additions in 1999 and 2000 included the following:

- Hilton Garden Inn, South San Francisco – 169 rooms opened late 1999
- Quality Inn, South San Francisco – 45 rooms opened in first quarter 1999
- Hampton Inn, South San Francisco – 100 rooms opened in late 1999
- Ramada Limited – 54 rooms opened in mid-1999
- Larkspur Landing, South San Francisco – 111 rooms opened in mid-1999
- Days Inn, San Bruno – 48 rooms newly opened
- Radisson, Brisbane/ South San Francisco – 171 rooms opened June 2000
- Courtyard by Marriott, South San Francisco – 198 rooms opened July 2000
- Four Points Hotel, South San Francisco – 101 rooms opened August 2000
- Residence Inn, South San Francisco – 152 rooms opened July 2000
- Homewood Suites – 177 rooms opened 2001

As aforementioned, while occupancy levels in the area are significantly stronger, there has yet to be a resurgence in ADR levels beyond those achieved in 2000. As a result, profitability, which is the basis for setting real estate values, does not support new construction of hotels in the SFO North area at this point in time.

There is only limited new supply, which is anticipated in the SFO North and South area. There are two projects, which are in the supply pipeline. One is a 400-room, full-service luxury hotel to be built at San Francisco Airport, while the other is a proposed select service hotel at the Crossing on San Bruno. Expectations for the SFO opening are for 2017, while the San Bruno site may be slightly sooner. Neither is fully financed or under construction. It is expected that neither would have any direct impact on the proposed Sierra Point hotel site. Although there is available land and there have been past announcements about new potential hotel development in the SFO North and South area, there is no other current discussion apparent regarding any new supply due to mostly financial barriers to entry and the inability of a new hotel to achieve profitability due to the low room rate levels in conjunction with rising expense margins. It will be the cost for development which will create barriers to entry for the near future in spite of high occupancy and potential hotel guest room inventory shortages.

### **Competitive Lodging Performance**

Data available from Smith Travel Research, combined with the results of field research, provide the basis for the operating data for the competitive set properties (same as above) as presented in the following table:

SIERRA POINT HOTEL

SFO NORTH/BRISBANE, CALIFORNIA COMPETITIVE LODGING MARKET HISTORICAL/FUTURE PERFORMANCE						
Year	Occupancy %	Average Rate	REVPAR	Annual Room		
				Supply	Demand	Revenue
Projected 2020	82.5%	\$207.00	\$170.78	426,756	352,074	\$72,879,256
Projected 2019	82.5%	\$196.00	\$161.70	425,590	351,112	\$68,817,903
Projected 2018	82.5%	\$187.00	\$154.28	425,590	351,112	\$65,657,897
Projected 2017	82.5%	\$178.00	\$146.85	425,590	351,112	\$62,497,892
Projected 2016	82.5%	\$168.00	\$138.60	426,756	352,074	\$59,148,382
Projected 2015	82.5%	\$158.00	\$130.35	425,590	351,112	\$55,475,657
Projected 2014	81.5%	\$149.00	\$121.44	425,590	346,856	\$51,681,522
Projected 2013	80.5%	\$142.00	\$114.31	425,590	342,600	\$48,649,193
2012	80.6%	\$135.79	\$109.49	425,590	343,184	\$46,599,837
2011	81.8%	\$118.37	\$96.81	425,590	348,062	\$41,200,636
2010	76.6%	\$108.21	\$82.88	425,590	325,987	\$35,274,573
2009	71.5%	\$108.60	\$77.60	425,590	304,127	\$33,027,789
2008	76.7%	\$126.05	\$96.69	425,590	326,460	\$41,151,638
2007	75.1%	\$120.68	\$90.57	425,590	319,421	\$38,546,674
2006	74.7%	\$107.38	\$80.19	425,590	317,841	\$34,128,789
2005	73.5%	\$95.67	\$70.33	398,863	293,225	\$28,052,928
2004	65.5%	\$90.81	\$59.44	414,793	271,492	\$24,654,081
2003	58.3%	\$88.99	\$51.90	425,590	248,213	\$22,088,425
2002	56.0%	\$100.95	\$56.53	366,472	205,217	\$20,717,040
2001	54.8%	\$127.50	\$69.84	342,885	187,819	\$23,947,029
CAG (2012-2020)	0.3%	5.4%	5.7%	0.0%	0.3%	5.7%
CAG (2001-2020)	2.2%	2.6%	4.8%	1.2%	3.4%	6.0%
CAG (2001-2012)	3.6%	0.6%	4.2%	2.0%	5.6%	6.2%
YTD March 2013	72.0%	\$132.08	\$95.07	104,940	75,538	\$9,976,826
YTD March 2012	74.7%	\$126.11	\$94.19	104,940	78,383	\$9,884,576
CAG	-3.6%	4.7%	0.9%	0.0%	-3.6%	0.9%

CAG = Compound Annual Growth

Competitive Set: Radisson Hotel SFO Bay Front, Embassy Suites SFO, Hilton Garden Inn SFO North, Courtyard SFO/Oyster Point Waterfront, Four Points SFO, Homewood Suites SFO

Source: Smith Travel Research, RSBA & Associates

Occupancies prior to 2001 had peaked at over 80% in the general San Francisco Airport area. As aforementioned, further demand was anticipated due to an expanded San Francisco Airport, as well as a booming economy, which was centered around the high tech boom in Silicon Valley and the City of San Francisco. This stimulated the expansion in SFO North, which was mostly completed when the boom went to bust in 2001. Due to a combination of the new supply in SFO North and the fall of the local economy, occupancies throughout the San Francisco area, including the SFO North and South plummeted by upwards of 25% (SFO South) - 30% (SFO North). Room rates declined by 35% - 40% in the SFO North and South neighborhoods between yearend 2000 and 2005 before recovery began.

Without the decline after 2000 ADR levels would have approximated \$140 in the SFO North area at that time, when in reality they slipped to \$127 in 2001 and bottomed out in 2004 at \$90. By yearend 2012 the competitive set, which is used in this report, achieved a \$135.79 annual ADR. This dynamic underscores the lack of economic underpinning for the development of new hotels in the SFO North area, even though occupancy levels which peaked at over 80% in 2000 have now fully recovered. Without at least another 40% to 50% increase in ADR levels new development will be difficult to financially support.

The downward shifts in occupancy were due to the following:

- 2001 – 2004 (dot.com collapse and Iraqi War)
- 2007 – (national economic decline)

The most important details in the above table are as follows:

- The compounded annual demand growth as forecasted through 2020 from 2012 reflects a conservative 0.3% compounded annual increase for this competitive set of full service hotels because peak occupancy is capped in 2015. Over what will become a 20 year period between 2001 and 2020, this estimates compounded annual growth of 2.2%. Even with further demand for hotel rooms, occupancy will reach a pinnacle with the coincidence of unsatisfied demand during peak periods and limited demand during historically low occupancy periods. The combination of peak occupancy and potentially unsatisfied demand will stimulate the need for more hotel room inventory, however the key issue will be the contingency of ADR growth and the ability to generate enough revenue to enable adequate profit margins and owner's return on any new development investment.
- The compounded annual ADR growth as forecasted between 2012 and 2020 reflects 5.4% growth for this competitive set of full service hotels, which is slightly conservative in consideration of potential peak occupancy levels, but is aggressive given growth of only 0.6% between 2001 and 2012. Over what will become a 20 year period between 2001 and 2020, this estimates compounded annual growth of 2.6%, which currently exceeds the last ten years of average annual CPI growth and the national average for ADR growth, which has also trailed CPI.



As a result of the above, the compounded annual revenue (REVPAR) growth as forecasted between 2012 and 2020 reflects 5.7% growth for this competitive set of full service hotels, which compares to the REVPAR of 4.2% between 2001 and 2012. Over what will become a 20 year period between 2001 and 2020, this estimates compounded annual growth of 4.8%, which also exceeds the last ten years of average annual CPI growth and the national average for REVPAR growth. Although possible conservative projections of growth, again due to potential demand growth without adequate inventory, these are also reasonable in the context of historical trends.

Regardless of the reasonable and/or conservative nature of forecasting demand related occupancy and ADR, there are uncontrollable and unforeseeable situations, which would disturb these views. These would include the intrusion of new supply, regional or national economic shifts, and systemic shocks, including natural disasters, political events, and health related occurrences. All of these issues impacted demand during the last decade; therefore the qualifier for any of the forecasts in this report is the lack of consideration for any unknown event, which would upset the standard business flow.

The first quarter months of 2013 actually reflect a decline in demand growth, although this is expected to recover by yearend to equal or slightly greater occupancy than in 2012. Demand growth for immediate future years between 2007 and 2014 is estimated at no more than 1% based on historical trends and availability of inventory. While hotel supply is not expected to expand during the next five years, there are still periods during the year, which include the first quarter, specific holiday periods (ex. Thanksgiving), and December, that place ongoing ceilings on potential annual occupancy levels. The impact of the potential Sierra Point Hotel or another will also be lessened, as much of the inventory will be absorbed by unsatisfied demand during the highest demand periods.

New supply is subject to barriers to entry: 1) cost of land, 2) best use for new development, 3) cost of development, and 4) availability of sites. The market should continue with upwards mobility and stability unless there is another economic downturn in the primary high tech business sector of the northern Silicon Valley or in the biotech sector of SFO North. Even with new supply, current demand would be mostly absorbed due to current capacity limitations to satisfy demand.

## LODGING DEMAND CHARACTERISTICS

Demand for guestrooms in the competitive market area is generated from three primary market segments: Commercial, Group and meeting guests, and Leisure travelers. The primary sources of demand are with the biotech and high tech (software development, communication systems) along with airport related travelers and tourists to San Francisco. The lodging market has primary success capturing business from the Commercial segment, while there is seasonal strength in the Leisure segment and limited Group segment activity. There are significant differences in occupancy and ADR performance between weekday and weekend periods, as exhibited below which compares three years of aggregated date between April and March for years 2010/2011, 2011/2012, and 2012/2013:

Occupancy and ADR Performance: Weekday (Sunday – Thursday) versus Weekend				
Year	Weekday Occupancy	Weekend Occupancy	Weekday ADR	Weekend ADR
April 2010 – March 2011	79.0%	77.0%	\$112.00	\$92.50
April 2011 – March 2012	83.0%	79.0%	\$128.00	\$104.50
April 2012 – March 2013	81.0%	77.5%	\$143.50	\$118.00

Appendix B – STR Weekday/Weekend Historical Trend

The trends in the weekday occupancy with 5% growth between the annual periods above in 2010/2011 and 2011/2012 reflect the aforementioned improvement and recovery of economic conditions after the bottom in 2009. The slight reduction in the third year indicates that there is both volatility even in a strong market and that the 83.0% occupancy in the second annual period possibly reflects a peak for the area. The weekend occupancy did not increase over the same three year period, which is probably an indication of a stabilized peak of between 77% and 79%. Weekday ADR growth of 14.2% between the first and second annual periods with another 12.0% growth between the second and third annual periods indicates the real potential for growth in the market area. During the same periods weekend ADR growth was just under 13% for both years, which indicates the same potential for growth during the weekend periods, although the room rates will continue to be 12% - 15% lower on weekends versus weekdays.

This ADR trend will continue for the next several years. It is driven by demand from the most influential demand segments in each day period. The strengthening of the Commercial segment during the weekdays and Leisure during the weekends will also force room rates higher for airline crews, distressed passengers, and other airport related business. Where the minimum crew rate by the end of 2009 was as low as \$59 or \$69, the room rates have grown at least by 30% - 40% since that time, which would help to skew the ADR for the general area higher.

ADR growth for the first quarter of 2013 is 4.7%, but this is expected to rebound in the latter three quarters of the year to at least 8%, although there will be little year over year occupancy growth.

As aforementioned, there are some seasonal demand variations as well:

Brisbane/South San Francisco Competitive Set Performance Full Year 2012		
Month	Occupancy	ADR
January 2012	68.8%	\$123.50
February 2012	76.6%	\$131.88
March 2012	78.9%	\$123.32
April 2012	79.3%	\$121.85
May 2012	82.2%	\$129.17
June 2012	90.2%	\$145.59
July 2012	87.1%	\$143.17
August 2012	91.9%	\$143.17
September 2012	87.1%	\$151.89
October 2012	86.2%	\$157.48
November 2012	70.5%	\$129.53
December 2012	68.6%	\$117.37

The months of June through October reflect the added influence of the Leisure traveler, as well as the prime Group segment months for citywide conventions in San Francisco (September, October).

In 2012 major San Francisco city groups such as Orthopedic Surgeons (February), Salesforce (September), and Oracle (October) created compression for higher occupancy and ADR levels into the SFO North area. Although Oracle and Salesforce conventions will return in 2013, Orthopedic Surgeons did not and the result can be seen in the occupancy decline in the SFO North area between February 2012 (76.6%/\$131.88) and February 2013 (74.6%/\$135.22) with a 2.7% decline in occupancy and only a 2.5% growth in ADR, when January and March 2013 experienced ADR growth at over 5%. This indicates the important relationship between the activities in the City of San Francisco and SFO North. If the City weakens, then SFO North does not have the intrinsic strength to sustain its revenue position.

The subject Sierra Point hotel site is currently not a strong location for access or convenience to the area's strongest demand generators. The Radisson and Homewood Suites hotels are currently feeling this vulnerability. When the marketplace weakens, these outlets are the first to show decline, while when the marketplace is strengthening, these hotels are the last to show growth. This condition will continue until there is demand in the immediate Sierra Point neighborhood due to the potentially lower vacancy rates with the right tenant mix in the currently existing buildings and the build out and occupancy with an appropriate tenant mix on the two major development sites, which currently exist on Sierra Point. "Appropriate tenant mix" in this case would mean national or regional headquarter offices or research and development locations for companies, which would attract visitors from other locations and thus create demand for hotel rooms.

In consideration of nearby competitor market segment mix and the intended development of a Sierra Point hotel with a national brand, appropriate bed mix, meeting space, and competitive products and services, the estimated market segmentation mix is forecast as follows:

- Commercial – 55%
- Group – 15%
- Leisure – 30%

**Commercial Demand** – As indicated, this segment is comprised primarily of demand from Genentech (8,000 – 10,000 annual room nights), Amgen (4,000 – 6,000 annual room nights), and SAP (4,000 – 6,000 annual room nights), as well as much as 500 – 1,000 rooms annually each from a variety of corporate sources, including Life Technologies, Onyx, Pfizer, Solazyme, and MacroGenics. Companies like Tosch, Aetillion, Fluidyme, Glam, Calabnet, Shopping.com, Calanet, Monster, bebe, and Cutera, which provide demand for the Sierra Point hotels, produce generally less than 300 - 500 room nights annually for neighborhood hotels.

The average length of stay for this market segment is between one and two days. This volume of business is generally consistent throughout the year with some seasonal slowdown in December through March. Currently, the existing hotels in the Sierra Point neighborhood fall short of capturing their fair share of demand from these demand sources, (with the exception of Tosch, Aetillion, Fluidyme, Glam, Calabnet, Shopping.com, Monster, and Cutera) due to their relatively inconvenient locations and lack of convenient accessibility from key demand generators. Even with the subject hotel's anticipated quality of service and competitive product without fuller occupancy of existing commercial buildings and the build out of available projected commercial sites, the projected subject hotel will perform similarly to the current existing Sierra Point hotels and fall short of its fair share of capturing commercial demand.

Current demand from local companies is split between Sierra Point and other SFO North area properties in South San Francisco. The hotels with proximity to the companies with overnight stay demand capture the highest market penetration from the Commercial segment.

Growth in the Commercial segment is tied primarily to the business and economic health of the local area. It is estimated that Commercial segment demand will continue to improve until at least 2016 and then beyond. Although there will be potential demand growth in the market after 2016, it is projected that the new demand may not be satisfied by the existing competitive set after that time. This would historically be the moment that new supply might be justified, however the lack of ADR growth and thus potential revenue production with resulting profitability potential will probably not justify new hotel development from an investment return standpoint.

If there is headquarters oriented commercial office development activity on the two available sites on Sierra Point and when the current commercial office space on Sierra Point is fully occupied with similar occupants, then the subject Sierra Point hotel could capture at least 100% of market share for this segment.

**Group Demand** – This segment is comprised of travelers desiring a property with meeting space in the Sierra Point and SFO North area for sales meetings, management seminars, new product orientations and training programs. This type of group typically requires lodging during the commercial week, Monday through Thursday, which caps its potential seven-day impact.

Weekend group activities are limited primarily to social, sports, and fraternal segments (“SMERFS”). Most of this segment’s groups are extremely rate sensitive, which is reflected in the difference between weekday and weekend ADR. The only hotels, which have adequate meeting space in the SFO North area, are the Embassy Suites and the Radisson. Development of the weekend group segment would be a need for the subject Sierra Point hotel to maximize occupancy. Planning should maximize the square footage and flexibility of any meeting space to be competitive with other hotels in the area. Inclusion of meeting space would also require food and beverage banquet support, which requires a kitchen and staffing. This could either be included in the prospective hotel development or preferably outsourced through an adjacent restaurant operation, as aforementioned.

The following illustrates the current meeting space ratios within the SFO North competitive set:

SFO NORTH/BRISBANE, CALIFORNIA COMPETITIVE SET MEETING SPACE COMPARISONS			
Hotel	Number of Guest Rooms	Meeting Space (s.f.)	Meeting Space Per Guest Room (s.f.)
Radisson Hotel San Francisco Airport Bay Front	210	3,900	19
Embassy Suites San Francisco Airport	312	8,400	27
Hilton Garden Inn San Francisco Airport North	169	1,400	8
Courtyard San Francisco Airport/Oyster Point Waterfront	198	1,800	9
Four Points By Sheraton Hotel & Suites San Francisco Airport	100	0	0
Homewood Suites by Hilton SFO Airport	177	700	4

It is recommended that the subject Sierra Point hotel include a minimum of 15 square feet per guest room or approximately 3,000 total square feet of planned and coordinated meeting space in the development of the project.

Growth in this segment of demand is estimated to be about the same as in the Commercial segment of demand. Additional weekday or weekend conventions and trade shows are somewhat constrained by the limited recreational appeal of the destination and the lack of a quality convention center focal point. Therefore, growth is estimated to be about 1%-2% per year for the next few years. With an adequate meeting space to guest room ratio as recommended in this report the subject Sierra Point hotel should capture 100% of market share for this segment.

**Leisure Demand** – This segment includes travelers en route to destinations or visiting nearby attractions. The subject Sierra Point hotel is not directly located adjacent to any major recreational, cultural, entertainment, shopping, historical, or other tourist attractions, however its location within ten miles of San Francisco would provide the same benefit, which is enjoyed by other hotels in the SFO North area. Leisure customers to competitive hotels are currently utilizing airport hotel properties for either convenience to or from their airline transportation or for affordability by comparison to downtown hotel properties.

The Leisure segment of demand is tied to economic fluctuations and leisure activities. In the recovery from the 2008-2009 downturn there has recently been significant growth in this segment of demand. The subject Sierra Point hotel should expect to capture no more than 95% - 100% market share in this segment from its primary competitive set.

The following tables summarize our estimate of the competitive market performance for each hotel site for 2012 and forecasted 2013 and 2014, based on the estimated performance of the individual hotels within the current SFO North competitive set:

SIERRA POINT HOTEL

SFO NORTH/BRISBANE, CALIFORNIA MARKET MIX & PENETRATION ANALYSIS 2012 ESTIMATED							
	Radisson Hotel San Francisco Airport Bay Front	Embassy Suites San Francisco Airport	Hilton Garden Inn San Francisco Airport North	Courtyard San Francisco Airport/Oyster Point Waterfront	Four Points By Sheraton Hotel & Suites San Francisco Airport	Homewood Suites by Hilton SFO Airport	TOTAL COMPETITIVE MARKET
<b>MARKET PERFORMANCE</b>							
Number of Days Open	366	366	366	366	366	366	
Number of Rooms	210	312	169	198	100	177	1,166
Room Nights Available	76,860	114,192	61,854	72,468	36,600	64,782	426,756
Share of Supply	18.0%	26.8%	14.5%	17.0%	8.6%	15.2%	
Occupancy Percentage	82.0%	81.5%	82.0%	76.0%	86.0%	79.5%	80.8%
Total Room Nights Captured	63,025	93,066	50,720	55,076	31,476	51,502	344,865
Fair Share of Room Nights	62,111	92,280	49,985	58,562	29,577	52,351	
Market Penetration	101.5%	100.9%	101.5%	94.0%	106.4%	98.4%	
Estimated ADR	\$120.00	\$155.00	\$130.00	\$150.00	\$110.00	\$125.00	\$135.54
Estimated REVPAR	\$98.40	\$126.33	\$106.60	\$114.00	\$94.60	\$99.38	\$109.53
ADR Penetration	88.5%	114.4%	95.9%	110.7%	81.2%	92.2%	
<b>MARKET MIX:</b>							
<b>COMMERCIAL</b>							
Percent of Demand Captured	40%	50%	65%	60%	40%	65%	53.3%
Room Nights Captured	25,210	46,533	32,968	33,045	12,590	33,476	183,823
Fair Share Room Nights	24,845	46,140	32,490	35,137	11,831	34,028	
Market Penetration	101%	101%	101%	94%	106%	98%	
<b>GROUP</b>							
Percent of Demand Captured	20%	25%	10%	10%	5%	5%	14.7%
Room Nights Captured	12,605	23,267	5,072	5,508	1,574	2,575	50,600
Fair Share Room Nights	12,422	23,070	4,998	5,856	1,479	2,618	
Market Penetration	101%	101%	101%	94%	106%	98%	
<b>LEISURE</b>							
Percent of Demand Captured	40%	25%	25%	30%	55%	30%	32.0%
Room Nights Captured	25,210	23,267	12,680	16,523	17,312	15,451	110,442
Fair Share Room Nights	24,845	23,070	12,496	17,569	16,267	15,705	
Market Penetration	101%	101%	101%	94%	106%	98%	
TOTAL	100%	100%	100%	100%	100%	100%	
Source: RSBA & Associates, Local market interviews							

SIERRA POINT HOTEL

SFO NORTH/BRISBANE, CALIFORNIA MARKET MIX & PENETRATION ANALYSIS 2013 FORECAST							
	Radisson Hotel San Francisco Airport Bay Front	Embassy Suites San Francisco Airport	Hilton Garden Inn San Francisco Airport North	Courtyard San Francisco Airport/Oyster Point Waterfront	Four Points By Sheraton Hotel & Suites San Francisco Airport	Homewood Suites by Hilton SFO Airport	TOTAL COMPETITIVE MARKET
<b>MARKET PERFORMANCE</b>							
Number of Days Open	365	365	365	365	365	365	
Number of Rooms	210	312	169	198	100	177	1,166
Room Nights Available	76,650	113,880	61,685	72,270	36,500	64,605	425,590
Share of Supply	18.0%	26.8%	14.5%	17.0%	8.6%	15.2%	
Occupancy Percentage	81.5%	81.5%	82.0%	76.0%	86.0%	79.5%	80.7%
Total Room Nights Captured	62,470	92,812	50,582	54,925	31,390	51,361	343,540
Fair Share of Room Nights	61,873	91,925	49,793	58,337	29,463	52,150	
Market Penetration	101.0%	101.0%	101.6%	94.2%	106.5%	98.5%	
Estimated ADR	\$125.00	\$164.00	\$135.00	\$155.00	\$113.00	\$131.00	\$141.61
Estimated REVPAR	\$101.88	\$133.66	\$110.70	\$117.80	\$97.18	\$104.15	\$114.31
ADR Penetration	88.3%	115.8%	95.3%	109.5%	79.8%	92.5%	
<b>MARKET MIX:</b>							
<b>COMMERCIAL</b>							
Percent of Demand Captured	40%	50%	65%	60%	40%	65%	53.3%
Room Nights Captured	24,988	46,406	32,878	32,955	12,556	33,385	183,168
Fair Share Room Nights	24,749	45,962	32,365	35,002	11,785	33,897	
Market Penetration	101%	101%	102%	94%	107%	98%	
<b>GROUP</b>							
Percent of Demand Captured	20%	25%	10%	10%	5%	5%	14.7%
Room Nights Captured	12,494	23,203	5,058	5,493	1,570	2,568	50,385
Fair Share Room Nights	12,375	22,981	4,979	5,834	1,473	2,607	
Market Penetration	101%	101%	102%	94%	107%	98%	
<b>LEISURE</b>							
Percent of Demand Captured	40%	25%	25%	30%	55%	30%	32.0%
Room Nights Captured	24,988	23,203	12,645	16,478	17,265	15,408	109,987
Fair Share Room Nights	24,749	22,981	12,448	17,501	16,205	15,645	
Market Penetration	101%	101%	102%	94%	107%	98%	
TOTAL	100%	100%	100%	100%	100%	100%	

Source: RSBA & Associates, Local market interviews



SIERRA POINT HOTEL

SFO NORTH/BRISBANE, CALIFORNIA MARKET MIX & PENETRATION ANALYSIS 2014 FORECAST							
	Radisson Hotel San Francisco Airport Bay Front	Embassy Suites San Francisco Airport	Hilton Garden Inn San Francisco Airport North	Courtyard San Francisco Airport/Oyster Point Waterfront	Four Points By Sheraton Hotel & Suites San Francisco Airport	Homewood Suites by Hilton SFO Airport	TOTAL COMPETITIVE MARKET
<b>MARKET PERFORMANCE</b>							
Number of Days Open	365	365	365	365	365	365	
Number of Rooms	210	312	169	198	100	177	1,166
Room Nights Available	76,650	113,880	61,685	72,270	36,500	64,605	425,590
Share of Supply	18.0%	26.8%	14.5%	17.0%	8.6%	15.2%	
Occupancy Percentage	82.0%	82.0%	82.5%	78.0%	86.0%	80.0%	81.4%
Total Room Nights Captured	62,853	93,382	50,890	56,371	31,390	51,684	346,569
Fair Share of Room Nights	62,418	92,736	50,232	58,851	29,723	52,610	
Market Penetration	100.7%	100.7%	101.3%	95.8%	105.6%	98.2%	
Estimated ADR	\$131.00	\$172.00	\$142.00	\$163.00	\$119.00	\$138.00	\$148.82
Estimated REVPAR	\$107.42	\$141.04	\$117.15	\$127.14	\$102.34	\$110.40	\$121.19
ADR Penetration	88.0%	115.6%	95.4%	109.5%	80.0%	92.7%	
<b>MARKET MIX:</b>							
<b>COMMERCIAL</b>							
Percent of Demand Captured	40%	50%	65%	60%	40%	65%	53.3%
Room Nights Captured	25,141	46,691	33,079	33,822	12,556	33,595	184,884
Fair Share Room Nights	24,967	46,368	32,651	35,311	11,889	34,196	
Market Penetration	101%	101%	101%	96%	106%	98%	
<b>GROUP</b>							
Percent of Demand Captured	20%	25%	10%	10%	5%	5%	14.7%
Room Nights Captured	12,571	23,345	5,089	5,637	1,570	2,584	50,796
Fair Share Room Nights	12,484	23,184	5,023	5,885	1,486	2,630	
Market Penetration	101%	101%	101%	96%	106%	98%	
<b>LEISURE</b>							
Percent of Demand Captured	40%	25%	25%	30%	55%	30%	32.0%
Room Nights Captured	25,141	23,345	12,723	16,911	17,265	15,505	110,890
Fair Share Room Nights	24,967	23,184	12,558	17,655	16,348	15,783	
Market Penetration	101%	101%	101%	96%	106%	98%	
TOTAL	100%	100%	100%	100%	100%	100%	
Source: RSBA & Associates, Local market interviews							

## FUTURE PERFORMANCE

The SFO North competitive lodging market has exhibited an erratic pattern of demand over the past several years, which seems to have stabilized in 2012 for at least the next several years unless there is a general and unanticipated market or systemic shock. Although stabilized patterns of growth are forecast below due to current fundamental trends of economic growth and historical demand patterns, there is no way to anticipate the unforeseen systemic shocks, which have had critical impact on demand during the early part of this decade. Research and analysis estimates the total supply of the competitive market to increase at a minimal rate from 2013 through 2020. Projected satisfied demand during this same time frame is estimated to increase at an annual rate of approximately 1% percent or less, while unsatisfied demand will compress further south to SFO South and beyond. The following table summarizes our estimates of projected room night demand for the competitive market by source of business:

SFO NORTH/BRISBANE, CALIFORNIA COMPETITIVE LODGING MARKET PROJECTED ROOM NIGHT DEMAND								
	2013	2014	2015	2016	2017	2018	2019	2020
Commercial Demand	183,168	184,884	187,247	187,760	187,247	187,247	187,247	187,760
Annual Growth		0.9%	1.3%	0.3%	-0.3%	0.0%	0.0%	0.3%
Group Demand	50,385	50,796	51,441	51,582	51,441	51,441	51,441	51,582
Annual Growth		0.8%	1.3%	0.3%	-0.3%	0.0%	0.0%	0.3%
Leisure Demand	109,987	110,890	112,186	112,493	112,186	112,186	112,186	112,493
Annual Growth		0.8%	1.2%	0.3%	-0.3%	0.0%	0.0%	0.3%
Total Demand	343,540	346,570	350,874	351,835	350,874	350,874	350,874	351,835
Annual Growth		0.9%	1.2%	0.3%	-0.3%	0.0%	0.0%	0.3%
Total Supply	425,590	425,590	425,590	426,756	425,590	425,590	425,590	426,756
Annual Growth		0.0%	0.0%	0.3%	-0.3%	0.0%	0.0%	0.3%
Projected Market Occupancy	80.7%	81.4%	82.4%	82.4%	82.4%	82.4%	82.4%	82.4%
Competitive Set: Radisson Hotel SFO Bay Front, Embassy Suites SFO, Hilton Garden Inn SFO North, Courtyard SFO/Oyster Point Waterfront, Four Points SFO, Homewood Suites SFO								
Source: RSBA & Associates								

**SIERRA POINT HOTEL**

The Sierra Point hotel once developed will be in a very good position to compete in the SFO North lodging market based on the continued growth and stabilization of commercial demand. The Sierra Point hotel should experience its greatest market penetration in the Commercial (55%) and Leisure (30%) segments of demand. A strategic brand affiliation, type of facilities offered, and aggressive sales and marketing efforts will all help to maintain the competitive position of the Sierra Point hotel in the SFO North lodging market. The Sierra Point hotel for purposes of this report is not scheduled to open until after 2020, however the following table summarizes the projected market segmentation for the SFO North competitive set between 2014 and 2020, which would be the basis for planning the Sierra Point hotel's market segmentation mix:

<b>SFO NORTH MARKET SEGMENT MIX</b>							
<b>2014 – 2020</b>							
	2014	2015	2016	2017	2018	2019	2020
<b>MARKET PERFORMANCE</b>							
Number of Rooms	1,166	1,166	1,166	1,166	1,166	1,166	1,166
Room Nights Available	425,590	425,590	426,756	425,590	425,590	425,590	426,756
Occupancy Percentage	81.5%	82.5%	82.5%	82.5%	82.5%	82.5%	82.5%
Total Room Nights Captured	346,569	350,875	351,836	350,875	350,875	350,875	351,836
Estimated ADR	\$149.00	\$158.00	\$168.00	\$178.00	\$187.00	\$196.00	\$207.00
Estimated REVPAR	\$121.44	\$130.35	\$138.60	\$146.85	\$154.28	\$161.70	\$170.78
<b>MARKET MIX:</b>							
<b>COMMERCIAL</b>							
Percent of Demand Captured	53.3%	53.4%	53.4%	53.4%	53.4%	53.4%	53.4%
Room Nights Captured	184,884	187,247	187,760	187,247	187,247	187,247	187,760
<b>GROUP</b>							
Percent of Demand Captured	14.7%	14.7%	14.7%	14.7%	14.7%	14.7%	14.7%
Room Nights Captured	50,796	51,441	51,582	51,441	51,441	51,441	51,582
<b>LEISURE</b>							
Percent of Demand Captured	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
Room Nights Captured	110,890	112,186	112,493	112,186	112,186	112,186	112,493

The subject Sierra Point hotel is expected to achieve an overall average market occupancy segmentation mix versus its competitive set. In general and after stabilization in 2011 the hotel is expected to achieve an estimated 100% market occupancy penetration in all segments, only if related Sierra Point commercial development with satisfactory vacancy rates occur. The subject's site on Sierra Point will continue to be inconvenient to the primary demand generators in South San Francisco, so without demand from Sierra Point sources, it would continue the pattern of the current hotels on Sierra Point of being the last to fill and a requirement to heavily discount rates

From 2014 through 2020 this report only considers that there will be no growth within select and full service hotel supply during the same period. With the growth in general market demand there is certainly the potential for other hospitality development, although none is currently announced, rumored, or in any development pipeline with the exception of the subject Sierra Point hotel. This will inevitably change. As a result of the Sierra Point hotel development, there will be a 18.5% increase in select or full-service hotel guest room supply in the SFO North competitive market, but as the SFO North competitive set is expected to grow to and sustain nearly 82.5% occupancy by the end of 2014 with no other new supply to capture unsatisfied demand, the subject Sierra Point hotel inventory should be quickly absorbed.

It is arguable that new inventory in the SFO North market will be required sooner than 2020, however, although the demand will support the occupancy of a new hotel, the revenue from competitive ADR levels would not affordably support the development of a new hotel, even in a better location than that of the subject Sierra Point hotel. As a result, guest room rates and not demand levels will determine the feasibility of the subject Sierra Point hotel.

The following table presents the actual and estimated occupancies and average daily rates for the SFO North competitive market for the years 2012 through 2020 based on the results of our research and analysis:

SFO NORTH/BRISBANE, CALIFORNIA ESTIMATED MARKET PERFORMANCE 2001-2020		
	Competitive Set	
	Occupancy %	ADR
2001	54.8%	\$127.50
2002	56.0%	\$100.95
2003	58.3%	\$88.99
2004	65.5%	\$90.81
2005	73.5%	\$95.67
2006	74.7%	\$107.38
2007	75.1%	\$120.68
2008	76.7%	\$126.05
2009	71.5%	\$108.60
2010	76.6%	\$108.21
2011	81.8%	\$118.37
2012	80.6%	\$135.79
Projected 2013	80.5%	\$142.00
Projected 2014	81.5%	\$149.00
Projected 2015	82.5%	\$158.00
Projected 2016	82.5%	\$168.00
Projected 2017	82.5%	\$178.00
Projected 2018	82.5%	\$187.00
Projected 2019	82.5%	\$196.00
Projected 2020	82.5%	\$207.00
CAG (2012-2020)	0.3%	5.4%
CAG (2001-2020)	2.2%	2.6%
CAG (2001-2012)	3.6%	0.6%

Competitive Set: Radisson Hotel SFO Bay Front, Embassy Suites SFO, Hilton Garden Inn SFO North, Courtyard SFO/Oyster Point Waterfront, Four Points SFO, Homewood Suites SFO  
Source: RSBA & Associates, STR

### Demand

The high-technology industry boom that occurred in the early 1990's and into 2000 also spurred a tremendous increase in the supply of lodging from San Francisco south through the Silicon Valley. Where once the hotel operators in Santa Clara, San Mateo and San Jose all competed aggressively for the same demand, the increase in supply (as well as growth in commercial office space throughout the region) has created smaller sub-segments. Today, hotel operators view their primary competition as those properties in immediate proximity to them, and/or those which share large pieces of business from the same demand generators. In addition, there are secondary competitors, which compete to varying degrees depending on their location, quality, facilities, amenities and rate structure.

The grouping of hotels within the SFO North lodging market, which would be considered the potential competitive set for the subject Sierra Point hotel include 1,166 guest rooms of a total of 27 hotels with 3,185 guest rooms in the overall SFO North area, including South San Francisco and Brisbane. These properties are both limited and full service facilities, while the directly competitive set is comprised of select service, full service, and extended stay.

The SFO North lodging market is strengthening after the demand and resulting occupancy setbacks between 2001 and 2005 and then 2008 and 2010. With that occupancy decline a coincidental room rate decline accelerated the downward trend in revenues, which ultimately reached over 50%. Since the most recent downturn SFO North occupancies have grown to almost peak levels, driven by demand from local bio-tech companies and demand for lodging in conjunction with San Francisco tourism. In 2013 occupancy levels are at an historical peak, but ADR levels matched only 2000 levels. This is the conundrum regarding new development, as there is probably demand levels which should raise the consideration of new supply, but ADR levels are probably \$40 - \$50 below what it necessary to financially support any new supply. Competitive set occupancy should reach at least 81.5% in 2013 (source: Smith Travel Research), while the ADR should increase to nearly \$142 in 2013 from \$135 in 2012. The occupancy in this sub-market has the potential to grow between 1% or 2% annually over the next five years. ADR is expected to increase between at least 4% and 6% annually for the same period due to growing demand compression.

## STUDY CONCLUSIONS AND HOTEL PRODUCT DIRECTIONS

### Programming: Select-Service Hotel

From an amenity and service standpoint the existing hotel product adequately serves the general customer base in the SFO North competitive set. The primary future needs relate to growing demand, which is returning the area back to historically high occupancy levels, and the availability of quality full service hotel rooms in the SFO North neighborhood during Monday through Thursday weekday periods, when sell-out status at neighborhood hotels has begun to regularly occur. There are few product and services shortfalls or gaps, according to customers.

Management interviews indicate primary demand for value oriented hotels for both business and leisure travelers with national brand frequent guest programs. There is a strong element of rate sensitivity from high volume customers, which are the corporations with budget sensitivity for the business traveler expenses. Leisure travelers are almost entirely rate sensitive, as for the most part they are giving up the convenience of staying in the center of San Francisco for the hotel room pricing benefit in South San Francisco and Brisbane.

Hotel management reported customer concerns related to the immediate neighborhood, which surrounds most of the hotels in the SFO North market, where there is “nothing to do”, “no there there”, or “boring”. Alternatively, t hotels, which are in SFO South, provide the full-service offerings, albeit at a higher room rate and inconvenience to SFO North companies. The addition of a 200-room select service hotel at the subject Sierra Point site will not change the character of a market without distinctive landmarks, entertainment, recreation, cultural outlets, or shopping. Additionally, hotels currently operating in Sierra Point do so with the significant handicap of poor access to Oyster Point and from the City of San Francisco, as well as insufficient demand generators from the immediate Brisbane neighborhood.

When a hotel building is feasible at the Sierra Point site, which this report suggests will not occur until nearly or just after 2020, the recommended product type is an upscale select service hotel, which would be similar in scope to the Hilton Garden and Courtyard by Marriott in South San Francisco. The aloft by Starwood and the Hyatt Place brands are available and appropriate for the subject site.

The following tables compare the recommendations for the subject Sierras Point hotel with prototypical scenarios for three nationally recognized select service hotel brands: Hyatt Place, Courtyard by Marriott, and aloft by Starwood. Coincidentally, two of these brands are already represented in the SFO North and South neighborhoods. As follows, there are multiple comparative exhibits:

**SIERRA POINT HOTEL**

1. The following table summarizes the general gross area requirement for the prototypical Hyatt Place, aloft, and Courtyard by Marriott hotels with the recommendation for the subject Sierra Point hotel:

General Programming Guideline (Gross Area)								
	Subject Hotel – 200 Rooms		Hyatt Place - 137 Rooms		aloft - 136 Rooms		Courtyard - 120 Rooms	
	Area (SF)	SF per Room	Area (SF)	SF per Room	Area (SF)	SF per Room	Area (SF)	SF per Room
Guestrooms	70,000	350	51,669	377	43,722	321	41,205	343
Total Public Areas	12,000	60	11,380	83	8,884	65	6,505	54
Retail Shop	0	0	0	0	0	0	0	0
Food and Beverage	2,000	10	1,500	11	1,740	13	1,085	9
Meeting Rooms	3,000	15	1,913	14	650	5	1,292	11
Lobby	2,000	10	1,325	10	2,304	17	734	6
Recreation	3,000	15	2,316	17	2,550	19	1,371	11
Other (Guest Laundry, Vending Rooms, etc.)	3,400	17	4,326	32	1,640	12	2,023	17
Back of House	6,000	30	6,133	45	2,547	19	3,278	27
Circulation	18,000	90	14,557	106	13,277	98	9,560	80
Administrative Area	1,000	5	269	2	610	4	472	4
<b>Total</b>	<b>120,400</b>	<b>602</b>	<b>84,008</b>	<b>613</b>	<b>69,040</b>	<b>508</b>	<b>61,020</b>	<b>509</b>

Source: Brand Development

A higher ratio of meeting space per guest room was utilized for competitive purposes, as there will be a competitive need for meeting space in the Sierra Point location, and the Radisson has 4,000 s.f. for that 210 room hotel.

The basic room packages throughout the SFO North service competitive set are the same. Features all include telephones with voice mail and internet connectivity; iron and ironing board; hairdryers; full length mirrors; coffee makers; 37” flat screen televisions with cable premium channels and pay per view movies through traditional vendors; oversized “smart desks” or utility tables; mini-bars or refrigerators; adequately sized and lighted closet with removable hangers; plus two or three chairs (one upholstered). Bedding is top quality and directly related to a specific brand standard.

2. The following table compares guest room ratios and sizes for the prototypical Hyatt Place, aloft and Courtyard by Marriott with the recommendation for the subject Sierra Point hotel:

Guestroom Characteristics							
Brand	Ratio			Typical Size (SF)			Note
	King	Double Queen	Suites	King	Double Queen	Suites	
Subject Hotel	57.5%	40%	2.5%	350	350	550	~20% bigger for accessible rooms
Hyatt Place	64%	34%	2%	337-344	403-416	700	~40% bigger for accessible rooms
aloft	64%	36%	N/A	280	327	N/A	~40% bigger for accessible rooms
Courtyard by Marriott	67%	28%	5%	318	357	538	~15% bigger for accessible rooms

Source: Brand Development

**SIERRA POINT HOTEL**

The subject Sierra Point hotel reflects some competitive influences related to the Radisson with regard to room size. Additionally, the Double Queen bed mix reflects the general competitive need for more Leisure rooms for Leisure family travelers to San Francisco.

The Hyatt Place offers four room types: King, Double Queen Bed, Studio King, and One-Bedroom Suite. All of Hyatt Place’s guestrooms include a 42” flat-panel HDTV, a sofa sleeper, and a Hyatt Grand bed.

The aloft offers two types of rooms: King and Queen/Queen. With the loft concept, all the guestrooms have nine foot-high ceilings. Additional amenities include platform beds, 42” flat-panel LCD TVs, custom amenities by Bliss Spa, and a plug n’ play docking station.

The Courtyard by Marriott’s guestrooms are designed for business travelers. The brand offers three room types: King, Queen/Queen, and Suite. Guestrooms amenities generally include a flat-panel TV, one to two chairs, a desk with multiple plugs, and high-speed internet connectivity.

3. The following table highlights the competitive set and the three brands’ key programming characteristics with the recommendation for the subject Sierra Point hotel:

Competitive Brands Characteristics				
	Sierra Point Hotel	Hyatt Place	aloft	Courtyard by Marriott
Typical Room Count	200	120-200	136 (prototype)	91-169
Standard Room Size (SF)	350	340	280	320
Room Types	King, Queen/Queen, Suite	King Suite, Double Queen Bed Suite, Studio King	King, Queen/Queen	King, Queen/Queen, Suite
F&B Outlets	2-Meal Restaurant, Retail Kiosk or Grab and Go	Gallery Café, 24/7 Guest Kitchen, Grab n’ Go Case	W XYZ Bar, re:fuel (24/7 grab n’go)	Bistro, 24/7 Grab n’ Go Market
Fitness Center	Yes	Yes	Yes	Yes
Parking Ratio (Space/Room)	1.0	1.0	1.0	1.0
Meeting Space (SF)	3,000	1,000-4,000	500-530	1,300
Other Amenities	Pool, Business Center	Indoor or Outdoor Pool	Pool, Self Check-In Kiosks, camp aloft for kids	Pool, Business Center
Source: Jones Lang LaSalle Hotels, Client				



**SIERRA POINT HOTEL**

Hotel operators in the SFO North area must develop demand during mid-week periods, as an opportunity for yielding revenue rather than scrambling for room nights through discounting. Those outlets with adequate meeting space have the greatest opportunity for highest market occupancy penetration. The competitive set hotels have meeting space square foot to guest room ratio of between 0 s.f. per guest room (Four Points) to 27 s.f. per guest room (Embassy Suites). It is no coincidence that the hotels with the greatest meeting room ratios have the most competitive market penetrations.

The following table compares SFO North area hotel meeting space:

SFO NORTH/BRISBANE, CALIFORNIA COMPETITIVE SET MEETING SPACE COMPARISONS			
Hotel	# of Rooms	Meeting Space (s.f.)	Meeting Space Ratio to Guestrooms
Radisson Hotel San Francisco Airport Bay Front	210	3,900	19
Embassy Suites San Francisco Airport	312	8,400	27
Hilton Garden Inn San Francisco Airport North	169	1,400	8
Courtyard San Francisco Airport/Oyster Point Waterfront	198	1,800	9
Four Points By Sheraton Hotel & Suites San Francisco Airport	100	0	0
Homewood Suites by Hilton SFO Airport	177	700	4

The mean range of the occupancy leaders is between 19 and 27 s.f. per guest room. It is recommended that the proposed Sierra Point hotel program a minimum of 15 s.f. per guest room with a minimum 1,500 s.f. divisible event space. Configuration is also important. The configuration of the space with adequate smaller meeting rooms and breakout space makes the hotel attractive for most 100 to 150 room meetings. This should be considered with the design of the Sierra Point hotel meeting space.

“There can never be enough meeting space” noted one meeting planner, referring primarily to breakout or smaller meeting rooms. Although the general select service brand ratio is 10 s.f. or less per guest room, a greater ratio is recommended for the Sierra Point hotel, especially, if it can be developed in conjunction with a free-standing two meal restaurant.

Meeting space should focus on technology with board rooms outfitted with adequate electrical service and lines for internet access, tele-conferencing, and other high tech needs, which can be adequately and aesthetically concealed behind wall panels. Additionally, meeting rooms should include advanced lighting and sound packages beyond current competitive standards. Meeting rooms with dividing walls should have the highest level of sound impedance.

The subject Sierra Point hotel must deliver the same high standard of product, which is traditional with the Marriott, Hyatt, and Hilton select service brand levels. The opportunities to improve upon current guest room standards rest with contemporary technology, adequate electrical outlets and power, telephone with cellular or call forwarding ability, 37" – 42" flat screen televisions with expanded in-room entertainment capabilities, distinctive interior design, and a customer driven service environment.

The subject Sierra Point hotel product must be adaptable to the diverse needs of the weekday and weekend travelers. Service and pricing standards must be allowed to flex with the need parameters of the individual customer segments. An upscale standard hotel, can flex in service standard and delivery based on customer segment variety, which are necessary to achieve profitability expectations.

Food and beverage services are more of an amenity in select service hotels than a culinary requisite. The Radisson current provides the only three meal restaurant service on Sierra Point, and it has not proven to be a significant competitive advantage. Within the remainder of the SFO North competitive set, the Embassy Suites is the only other hotel with full food and beverage services, including banquet. It is recommended that the subject Sierra Point hotel not include anything more than breakfast service and a bistro style dinner service and/or "grab and go", according to whatever brand affiliation it utilizes. If possible, an independent two meal (lunch and dinner) restaurant with a separate street entrance or local identity and with adjacency to the hotel should be considered as part of the general plan. It is hoped by that time there will be significantly more commercial office development to stimulate more demand for expanded food and beverage service, which would also complement the hotel's competitive position without the burden of the operational overhead.

Each of the competitive set hotels features an indoor pool and a fitness room. The subject Sierra Point hotel should include a brand standard fitness room (500 s.f.) and an indoor pool

Accessibility for disabled customers is an assumption for all public and back of house areas along with an adequate ratio of accessible guest rooms, as required by local and federal statutes.

The design features described above will allow the subject Sierra Point hotel to match competitive set hotels with regard to basic physical products and amenities. These features, although not significantly differentiating, will assist in positioning the hotel within the marketplace. No amount of physical features offsets the need for good service, effective marketing, solid brand recognition and expansive distribution. The critical nature for this development is the coincidental development of the Sierra Point neighborhood with commercial office development, which is complementary and creates demand for a hotel operation.

Available and recommended brands would include:

- Hyatt Place
- Indigo by Inter-Continental hotels
- aloft by Starwood

All other national brands are currently present in the SFO North competitive set. The above remaining available brands enjoy recognition for quality, a national reputation in Commercial and Leisure segments, and provide solid brand distribution through their reservation systems and frequent guest programs.

## FINANCIAL INFORMATION AND CONCLUSIONS

### I. Research Data

Information from both the Smith Travel Research Historical Trend Report (2001-2013 YTD) and the 2011 Host Report ("STR Host") was utilized to develop a financial forecasting model for the subject Sierra Point hotel. The Historical Trend Report data aggregates occupancy and ADR data from the SFO North competitive set of hotels, which has been referenced continually in this report. The STR Host information is aggregated data from a specific sample of SFO North competitive set hotels, which report data to STR Host, including the Courtyard South San Francisco, Embassy Suites South San Francisco, Marriott Courtyard San Bruno, Hilton Garden South San Francisco, and aloft Hotel Millbrae. The STR Host Report hotels were selected because they are located in the same competitive market as the subject hotel, operated as or like a select service hotel, and would reflect a similarity in inventory and building operation. The STR Host information is from year end 2011, as no report data is yet available for yearend 2012.

### II. Sources of Revenue

The primary source of revenue for the subject Sierra Point hotel is through the sale of guest rooms. The proposed is anticipated to have 200 guest rooms for sale, including five suites. Guest room sizes, including bathrooms, are anticipated to be approximately 350 s.f..

Pricing for guest rooms is arbitrary on a daily basis in consideration of competitive trends and projected occupancy. The difference between the "published" or rack rate for a guest room and its actual selling price can be extremely different. In addition rack rate pricing may be tiered to reflect seasonality or demand periods, so that the price for the same room may differ between the day of the week or the season. In low demand periods guest rooms are significantly discounted. In addition group rooms are quite often discounted.

For example in 2011, if operating, the subject Sierra Point hotel may have been priced between \$115 and \$120 on weekday peak nights and \$90 - \$100 on weekend nights. High volume rates would have been in a range of \$89 and \$109 with Group rates ranging from \$79 - \$99 on weekends and \$110 - \$120 on weekdays. Pricing is seasonal and based on specific demand periods, which requires the speculation on rates above.

Pricing is anticipated to market segment related trends. The subject hotel would be priced proximate to or on par with the Radisson Hotel in Brisbane. In general, while the subject hotel would be estimated to reach a 100% market penetration versus STR competitive set, which is used throughout this report, the hotel would be expected to achieve an estimated 90% market ADR penetration versus the SFO North competitive set, which reflects the impact of its location versus the hotels in South San Francisco and Oyster Point.

Forecasted occupancy is based on historical and current trends for the SFO North competitive set. There are consistent day of week, weekly, and monthly patterns in the STR competitive set, which would indicate the same potential patterns for the Sierra Point hotel.

For the purposes of this report's forecast an annual model was developed with estimated occupancy demand in both the transient and group segments with ADR (average daily rate) based on current competitive trends and seasonality. The Smith Travel Research Host Report for 2011 was utilized to develop the revenue and expense modeling for the proposed Sierra Point hotel five-year projection (see Appendix D and Appendix C - Host Report.)

Other revenue sources would include:

- Food and Beverage – These revenues would be produced by a retail two-meal restaurant and lounge (estimated at between 50 and 75 seats in total); a “grab and go” fast food facility; banquet activities with 3,000 s.f. of meeting and function space; and 24-hour room service. This is based on \$19.41 per occupied room in a base year of 2011 with increases based on estimated market demand and CPI increases.
- Telephone – Revenues are from use of guest room telephones and high speed internet connections. This is based on \$0.61 per occupied room in a base year of 2005 with increases based on estimated market demand and CPI increases.
- Other Operating Departments – Revenues include interest fees, non-food and beverage retail outlet revenues, plus revenues from miscellaneous commissions, including among others guest laundry and coin operated vending machines. Parking is often a revenue item, but none of the competitive set charge for parking, so no parking revenues are assumed. Other Operating Departments revenues are based on \$4.45 per occupied room in a base year of 2011 with increases based on estimated market demand and CPI increases.

### III. Expenses

The primary sources of operating expenses include the following:

- Human resources payroll
- Operating equipment and administrative expenses
- Marketing
- Utilities (Gas, Water, Electric)
- Maintenance
- Management Fees
- Insurance
- Real Estate Tax

A 4% reserve for replacement is included in the projections. (See Appendix D.)

The hotel is expected to be brand operated. Since it will be operated by the brand with which it is affiliated, franchise fees are included as part of the management fees. (See Appendix D.)

Human resources at the subject Sierra Point hotel are expected to be affiliated with organized labor, while staffing for salaried jobs would be commensurate with competitive full-service hotels. Staffing would include the following positions among others:

- General Manager
- Director of Sales
- Sales Managers and Coordinators
- Banquet Captain
- Administrative Assistants
- Culinary Staff
- Restaurant Supervisor
- Controller and related accounting clerk positions
- Executive Housekeeper
- Housekeepers and Houseman
- Reservations Attendant
- Front Office Supervisor
- Guest Service Attendants
- Maintenance Staff

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General operating expenses in addition to payroll related costs were utilized to develop a 2011 – 2020 facsimile Operating Statement. These were determined from a combination of base year 2011 expense metrics from the Smith Travel Host Report, as follows:

- Rooms \$28.19 per available room/\$34.62 per occupied room/29.8% of gross room revenues
- Food and Beverage \$13.46 per available room/\$17.39 per occupied room/89.6% of gross food and beverage revenues
- Administrative and General \$10.09 per available room/\$13.03 per occupied room/8.9% of gross revenues
- Marketing (including advertising and collateral) \$7.53 per available room/\$9.73 per occupied room/6.6% of gross revenues
- Property Operations \$6.07 per available room/\$7.84 per occupied room/5.3% of gross revenues
- Utilities \$4.64 per available room/\$6.00 per occupied room/4.1% of gross revenues

Telephone expenses are estimated breakeven with telephone revenues, as cell phones have reduced guest telephone usage.

Property Taxes and Insurance are estimated between 4.8% or \$5.44 per available room annually based on competitive trends but these would become more determined as construction cost and other factors were clarified. (See Appendix D.)

Replacement Reserve is estimated at 4% of gross revenues.

Management fee is allocated at 4% of gross revenues

#### IV. Feasibility Discussion

There is arguably some unsatisfied demand during seasonal periods today with certainty of unsatisfied demand within two to three years, if current trends continue in the SFO North hotel market area. This would lead some to believe that new hotel development is justified, however there are several multiple factors, which would argue against that belief:

1. Recent hotel real estate sales have not reached either their original cost to build or replacement value.
2. Yields on hotel investment, based on the consideration of new construction cost and forecasted returns from operations, are not attractive to either experienced hotel developers/investors or lenders.
3. A solid pattern of performance has yet to develop within the SFO North neighborhood, in consideration of distressed periods between 2001 and 2005 plus 2008 until 2010.
4. REVPAR levels in 2012 finally exceeded those of 2000 but have not nearly kept pace with inflation from 2000 through 2013.

There have been five recent sales of hotels in the SFO North and South areas:

1. Holiday Inn Express SFO, Burlingame (December 2011) \$84,247 per room
2. Residence Inn SFO Airport, San Mateo (December 2011) \$108,234 per room
3. Summerfield Suites, Belmont (October 2011) \$194,592 per room
4. Marriott Waterfront SFO, Burlingame (March 2012) \$157,664 per room
5. Homewood Suites SFO, Sierra Point (March 2013) Portfolio Sale

The Radisson Hotel in Brisbane was also offered for sale in 2012, but it was not sold, when the seller did not receive adequate price offers on the property. The only definable cap rate was the Marriott Waterfront, which was estimated to be between 6.0% and 6.5%, as would be expected for an upper upscale, branded full-service hotel. The expected cap rate for a select service hotel in the SFO North or South would be in a range of 7% - 8%.

A spreadsheet for final five years of a 2001 through 2020 facsimile Operating Statement Projection for a stabilized 200-room hotel is represented below and based on revenues and margins, which have been aforementioned in this report. The forecasted revenues are based on forecasted market trends, as explained in this report, while expenses are based off of the aforementioned 2011 STR Host Report data with expense increases based estimated on a 3.5% CPI. (The expanded version is available as Appendix D.) A net operating profit before debt service and amortization (EBIT) is represented on the spreadsheet and is divided by capitalization rates, including 7.0%, 7.5%, and 8.0%, and would estimate a reasonable investment value for the hotel, if stabilized and operating in a fully developed Sierra Point neighborhood.



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Forecast for Proposed 200-room Sierra Point Hotel (2016–20) in Thousands of Dollars (\$,000)					
	2016 (\$,000)	2017 (\$,000)	2018 (\$,000)	2019 (\$,000)	2020 (\$,000)
Room Revenue	\$10,117	\$10,720	\$11,262	\$11,804	\$12,466
Food and Beverage	\$1,388	\$1,436	\$1,487	\$1,539	\$1,593
Total Revenue **	\$11,861	\$12,523	\$13,127	\$13,733	\$14,461
Profit before Debt and Depreciation (EBIT)	\$2,412	\$2,664	\$2,847	\$3,016	\$3,281
Estimated Market Value 7% Cap Rate	\$34,461,901	\$38,065,226	\$40,683,342	\$43,098,882	\$46,885,589
Estimated Market Value 7.5% Cap Rate	\$32,164,441	\$35,527,544	\$37,971,119	\$40,225,623	\$43,759,884
Estimated Market Value 8.0% Cap Rate	\$26,803,701	\$29,606,287	\$31,642,599	\$33,521,353	\$36,466,570
* Stabilization Year(s)					
** Also includes miscellaneous revenues					
*** Includes deductions for estimated management fees, taxes, insurance, and an annual replacement reserve (4% of gross revenues)					
Source: RSBA & Associates, Smith Travel Research					

**Feasibility of this project will be based on the hotel’s final design and product elements, its development costs, the ownership structure, the debt structure, and the expected investment return on equity based on the final business structure. None of these are clearly definable at this writing and the opinion related to the feasibility of this project can only be subject to consideration of current data.**

A 200-room hotel project, as described above, would be expected to cost no less than \$200,000 - \$225,000 per room, excluding land, or roughly estimated at \$45,000,000-\$50,000,000, including land cost. Based on the above spreadsheet, a stabilized 200-room Sierra Point hotel would not begin to approach those values until at least 2020. As a result, a sophisticated, experienced, and disciplined developer would not begin development of the subject hotel for at least another five years, during which a clearer picture would be provided for both the SFO North hotel market and the commercial office development and rental activities in the Sierra Point neighborhood.

**Study Assumptions**

The following assumptions were used as basis for our conclusions and recommendations:

1. No additional room accommodations will be added to the market during the next several years except as identified in this report.
2. The Sierra Point neighborhood commercial buildings will return to healthy vacancy levels and the development sites will be completed with corporate headquarter locations.

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3. The SFO North hotel trends will continue to grow and achieve consistent stabilization with regard to occupancy and ADR.
4. The area economy will continue to expand, and there will be no major downturns in the foreseeable future.
5. The subject Sierra Point site will be responsibly planned and developed, according to market demand trends and strategic competitive positioning and product development opportunities.