City of Brisbane
Agenda Report

Date: City Council Meeting of April 15, 2013

To: Mayor & City Council

From: City Manager

Subject: Sierra Point Hotel Feasibility Study Revised Proposal

Recommendation

Approve attached contract with RSBA & Associates to conduct a Hotel Feasibility Study for the hotel site on Sierra Point, Brisbane, California.

Background

A hotel site has been identified on Sierra Point since 1976 by the City of Brisbane. The former Redevelopment Agency Plan, as well as subsequent city documents (such as the Brisbane Bayfront Plan adopted on December 6, 1976) and approvals, identified a site for a large hotel and conference center. Various development constraints over the years have rendered efforts to develop the hotel site ineffective. Issues that have plagued the project include concerns over isolation of the location, cost of building on a landfill site, slowness of surrounding office development as well as more macro issues of the larger economy and the hotel development economy.

In the past few months the Council's Economic Development Subcommittee met with a well-regarded San Francisco Hotel developer and property manager to discuss both this site and the state of hotel development in our area. Some of what the Subcommittee heard is cautionary and some is hopeful. For example, the market for hotel overnight stays is strong and there have been very little new product brought to market. Further, the potential for new hotel projects within the City of San Francisco are minimal-to-none as little viable land exists to build upon. On the negative, the ratio of development cost to operating revenues is thin. In the hotel industry, despite high demand, there are upper limit thresholds to what the market will bear for pricing. Because of the economics of building and operating a hotel have been marginal-to-bad in recent years there have been few projects built. Of course some of this has to do with overall national and state economic slump.

Currently San Francisco Airport and a small project in San Bruno are under serious consideration for development. In discussing this with Rick Swig of RSBA his estimate is that the market for new hotels will increase in the next 3 to 5 years, making the timing of doing an analysis now critical.

Attached is a **revised** proposal from Rick Swig of RSBA & Associates to conduct a feasibility assessment for a full service hotel on Sierra Point. **The contract is revised and bolded to make it clear it is a public**

document that will be presented in full at a future City Council meeting and be available to public. The assessment will address a variety of economic conditions that exist and are planned for the area and will provide a suite of recommendations for consideration by the City and landowner, Universal Paragon Corporation.

Financial Implications

The proposed cost of the study will 25k with an additional 1k for miscellaneous expenses. The total cost of this study will be reimbursed to the City from Universal Paragon Corporation who has agreed to this arrangement.

Clay Holstine, City Manager

April 2, 2013

Mr. Clayton L. Holstine
City Manager
City of Brisbane
50 Park Place
Brisbane, CA 94005-1310

Dear Clay,

Please consider this proposal for a market feasibility study related to potential plans to develop a full service hotel at the Sierra Point site in Brisbane, California. To assist the City of Brisbane in evaluating the feasibility of this proposed project and to provide critical planning parameters for the City of Brisbane and any related parties, RSBA & Associates intends to conduct a study as detailed below.

SCOPE OF THE ASSIGNMENT

The study will be concerned with the determination of current and potential future demand for hotel accommodations in the market area, an assessment of existing and potential future competitive supply, and the share of the market that could reasonably be attained by the proposed project. **Study will be presented in written report form to the City and presented at a City Council meeting at the City of Brisbane's discretion. It is understood that the report will be a public document and available for any member of the public to review.** Our approach to such a study will be in several phases as described in the following paragraphs:

Site Review

We will evaluate the site and the surrounding area with respect to the following factors:

1. Accessibility and visibility
2. Future utilization and environment
3. Relationship to sources of demand for lodging accommodations
4. Relationship to area amenities
5. Relationship to competitive lodging facilities
6. Advantages/Disadvantages of the site versus the major lodging competitors in the marketplace

Area Review

We will gather and analyze relevant economic data regarding the market area to determine whether the overall economic environment in the area appears suitable for a hotel development. Correlations between key economic factors and the demand for hotel rooms will be examined. We will utilize any available forecasts of these indicators in our evaluation of potential future demand.

Primary Research

We will perform primary market research in the area consisting of interviews with key demand generators, inspection and evaluation of competition, and discussions with persons familiar with development patterns and the local hotel market in Brisbane, California. We will conduct interviews with representatives of the following:

- major employers in the market area
- potentially competitive hotels
- major tourist attractions
- city officials in zoning, development, and transportation
- Brisbane Chamber of Commerce
- individuals knowledgeable in the real estate market in Brisbane, California

Preparation of Supply and Demand Estimates

On the basis of the foregoing research, we will prepare estimates of future growth in the demand for and the supply of hotel accommodations in the Brisbane location. We will analyze historical growth in demand, and the characteristics of each of the principal segments of demand for hotel rooms. Then, using the information gathered in our research, we will estimate growth rates in demand for each market segment and project demand for each of the next five years expressed in hotel room nights demanded.

The next step in this assignment will be an assessment of the competitive supply in the market area, the historical growth and future additions to the supply of hotel accommodations in the Brisbane location. This step will allow us to prepare an estimate of future supply and demand, the expected market area occupancies for hotel rooms, and a ratio of total area supply which the proposed hotel is likely to offer.

Market Share Estimates

Upon completion of the estimate of market area supply and demand for the future, we will estimate the share of the market which the proposed hotel should reasonably be expected to capture, by market segment, for its first five years of operation. Operating the hotel as an independent or franchise will be a factor to consider as it relates to development of the hotel.

Facilities Recommendations

We will prepare recommendations for facilities which, in our opinion, will best meet the demonstrated and future market demand for the proposed hotel. These recommendations will include:

1. Number and mix of guest rooms and suites
2. Restaurant and lounge concepts and sizes
3. Detailed description of banquet and meeting facilities including pre-function and circulation space necessary to properly service the needs of the demand anticipated for the proposed project
4. Related services and amenities, such as fitness center, business center, recreational facilities, parking, and other services designed to enhance the appeal of the proposed property.

These recommendations are intended to provide the City of Brisbane architect and planner with the basis for a design program for the proposed hotel and will serve as basis for our estimate of operating results.

Average Daily Rates

Actual room rates achieved in the market area over the past several years will be reviewed and analyzed as criteria for preparing a recommended room rate structure and estimated average daily room rate for the proposed hotel. These estimates will take into consideration the type of demand serviced by the hotel, discounting policies for group and volume business, contract demand, and other factors impacting the potential rate achieved by the planned hotel. These rates will be stated in constant and inflated dollars.

Estimated Operating Results

Using our market research, we will estimate occupancy, average daily rate, sales and operating expenses for each of the first five years of operation for the proposed property. This estimate will include all revenues and expenses and will result in a "bottom line" of income before rent, depreciation, interest, and taxes on income. Since the projected operating results will be based on estimates and assumptions which are subject to uncertainty and variation, we will not represent them as results that actually will be achieved.

REPORT AND LIMITATIONS

RSBA & Associates will provide a written report to the City of Brisbane which is expected and intended to be presented at a City Council meeting. The report's goal is to provide information to the City and property owner on an accurate characterization of the marketplace as it relates to this specific location (Sierra Point). It is intended to provide a basis for further discussion and analysis between the City and property owner as to the appropriate hotel project for Sierra Point. It is not intended for use or to be considered suitable for use in obtaining financing, a franchise or management agreement. Final written copies of the report will be delivered to you at the conclusion of the study. Our report will be subject to the following limitations:

1. We have no obligation to update our findings regarding changes in the market conditions or project concepts which occur subsequent to the completion of our field work.

2. Our reports and the materials submitted may not be used in any prospectus or printed material used in connection with the sale of securities or participation interests to the public or in any newspaper publicity or other public forum.

3. The scope of our studies and reports will not include the possible impact of zoning or other environmental regulations, licensing requirements, or other such matters unless they have been brought to our attention and are disclosed in the report.

4. Any drafts or preliminary information communicated to you during the course of the assignment are for the City of Brisbane's internal management use only and may not be disclosed to any outside third parties without our prior written consent.

FEES AND STUDY TIMETABLE

The fieldwork will be completed during a period, which is based on the City of Brisbane's needs. A written report will be completed within three weeks of the initial fieldwork.

The fee for the fieldwork, analysis, preparation of the written report will be $25,000 with $5,000 payable upon execution of this agreement and the remainder payable upon completion and the City of Brisbane's receipt of the printed final written report.

Additionally, the City of Brisbane will be responsible for all expenses directly related to the project, which will include ground transportation, overnight accommodation and board, telecommunications, and potentially the cost of data from Smith Travel Research ($1,000).

In the event that after completing the fieldwork phase of this assignment it becomes necessary to alter the parameters of the study, or change the objective of the assignment or the amount of work required to complete it, RSBA & Associates will be entitled to charge an additional fee

based on our current hourly rates ($350) and the time required to incorporate the necessary changes into the analysis and report. In addition, the estimate of timing will be extended by an amount equal to the added work.

Notwithstanding the fee payment schedule set forth above, if, at any time while performing this assignment, it becomes necessary to suspend work for a period of 30 days or more, then RSBA & Associates will be entitled to bill for the portion of the assignment completed up to the suspension (less any retainer paid) at its current hourly rates.

If payment for professional fees and out-of-pocket travel and related expenses is not received within thirty (30) days of the billing date, RSBA & Associates reserves the right to suspend all work until payment is made and apply a service charge of 1.5 percent per month or fraction thereof to the total unpaid sum. It is further agreed that in the event any type of action becomes necessary to enforce collection of bills rendered, the City of Brisbane will be responsible for all collection costs, including but not limited to court costs and reasonable legal fees. It is understood that RSBA & Associates may extend the time for payment on any part of billings rendered without affecting the understanding outlined above.

In consideration of our agreement to provide services, the City of Brisbane agrees to waive and forego any and all rights to claim against RSBA & Associates for any damages, injuries, losses or expenses of any kind arising out of or in any way related to RSBA & Associates' provision of professional services on the City of Brisbane's behalf, except caused by RSBA & Associates' negligent or fraudulent activity.

RSBA & Associates will make no representation or warranty as to the accuracy or completeness of the information and analyses provided by others to us and included in presentation materials and/or reports given to the City of Brisbane (if any), including estimates, and shall have no liability for any representations (expressed or implied) arising out of this information and analysis. **The information provided to the City Council in this report and at a subsequent public meeting** will be intended solely for the City of Brisbane's use and should not be relied upon for any other purposes, or by any other entity without our prior consent, which will not be unreasonably withheld. Neither our presentation material nor our reports (if any), nor any reference to our Firm, may be included or quoted in any offering circular or registration statement, prospectus, sales brochure, appraisal, loan or other similar agreement or document. The City of Brisbane is authorized to share this information, as an exception to the above, with Universal Paragon Corporation.

ACCEPTANCE

If this proposal letter correctly states the nature of the work you wish undertaken at this time and arrangements are satisfactory, please sign and return one copy of this proposal, together with the requested deposit of $5,000, as our authorization to schedule the assignment. If, on the other hand, you have any questions, please call me. We appreciate the opportunity to submit this proposal and look forward to working with you on this assignment.

Regards,

Rick Swig, President
RSBA & Associates

Date _____

As agreed:

City of Brisbane

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Clayton L. Holstine
City Manager

Date _____