

# WESTPORT CUPERTINO

## GENERAL PLAN AMENDMENT AUTHORIZATION





May 15, 2017

David Brandt, City Manager  
Aarti Shrivastava, Assistant City Manager  
Cupertino City Hall  
10300 Torres Avenue  
Cupertino, CA 95014-3202

**Subject: Westport Cupertino – General Plan Amendment Authorization**

Dear City Manager Brandt and Assistant City Manager Shrivastava:

My brother and I have owned and operated our real estate firm (KT Urban) in Cupertino for over 28 years. In February 2015, we had the good fortune to acquire an excellent property in Cupertino less than ½ mile from our office. We have had our eye on this property for many years in hopes of acquisition as we observed its gradual and expected decline with an eye toward the future and a signature project for the community.

Given the proliferation and impact of online shopping and the corresponding shift in retail shopping behavior, the Oaks Shopping Center has become functionally obsolete, suffering from an outdated aesthetic appearance and suboptimal site configuration that has resulted in a lack of market interest and demand. We believe that the City and its residents can agree that in its present state, the Oaks is certainly not serving the best

interests of the community. *We hope you share our belief that it's time for a transformation at the Oaks.*

Thinking toward the future, we have invested the better part of two years actively engaging with, listening to, and incorporating community, property owner, stakeholder, City staff and elected official input. *And this is just the beginning.*

The *Heart of the City Specific Plan* envisions this site as becoming Cupertino's western gateway. Our proposed new concept, "Westport Cupertino", embraces this vision and draws upon the City's desire to create a greater sense of place.

KT Urban is pleased to submit our new General Plan Amendment Authorization application. This application includes two alternatives that demonstrate our flexibility in identifying the optimal mix of land use possibilities, site design features, community amenities, fiscal benefits, and general plan amendments.

The alternatives provided demonstrate the creativity of good land planning. Land is a valuable resource. Project architectural design should focus on minimizing large surface parking lots and inefficient low rise structure predominant in the built environment. Today's active retail, entertainment and social hubs provide an urban mixed-use village.

We request approval of the Authorization by the City Council to allow us to work with your professional staff and to seek community engagement to create the best project. It is our intent to work with the Council and City Staff to explore and refine these alternatives, or variations thereof, and come up with

a direction that is best suited to Cupertino. We expect that these alternatives will be fully and equally analyzed through the City's independent CEQA (Environmental Impact Report) review process.

As a Cupertino-based company with long-standing family and business relationships within the community, KT Urban is committed to working with you and the community-at-large to implement the Westport Cupertino project in a manner that provides inspiration and enhances our City's outstanding quality of life.

We respectfully request authorization to proceed with a General Plan Amendment application.

Thank you for your consideration.

Thank you.

Sincerely,

A handwritten signature in black ink, reading "Mark E. Tersini". The signature is fluid and cursive, with a large, sweeping initial "M" and a long horizontal line extending from the end of the name.

Mark Tersini, Principal  
KT Urban

### City of Cupertino's Vision

"Cupertino aspires to be a **balanced community** with quiet and attractive neighborhoods and a **vibrant, mixed-use 'Heart of the City.'**"



### Westport Cupertino

Westport Cupertino will serve as a vibrant **mixed-use gateway** district providing affordable and senior housing, extensive community benefits, significant mobility options, and a retail, entertainment, and civic destination for the greater Cupertino community.



## Proposed Alternatives

With a rapidly changing, technology-driven retail market and an outdated, aging commercial center, the existing Oaks Shopping Center is at a crossroads. The questions is: *What are the alternatives that should be further investigated for this important “gateway” site?*

To afford greater flexibility while also respecting the opinions and diversity of community interests, this General Plan Amendment Authorization application presents two development alternatives for Westport Cupertino: 1) Mixed-Use Residential and 2) Mixed-Use Gateway. Below is a brief description of each alternative with conceptual illustrations. These are followed by several tables that address consistency with the City’s General Plan, and consistency with the GPA Authorization evaluation criteria.

## Land Uses Common to Both Alternatives

Both alternatives include several similar land uses. These include:

**Retail/Commercial** – 69,500 sf. in total. This includes approximately 42,000 square feet constructed on the ground floor. Uses include retail, restaurants, and neighborhood services. It also includes a 27,500 sf. five-screen boutique movie theater. The retail space will be internally connected through a network of pedestrian and open spaces linking the office, hotel and residential uses. *The goal is to create an experience-oriented destination for residential, shopping, dining, and entertainment in a “gateway” environment, as envisioned in the Heart of the City Specific Plan.*

**Community Center** – This 4,000 sf. publicly-accessible community center will be available for civic and community functions such as De Anza Community College lectures and education activities, conferences, school events, community celebrations, and a variety of social gatherings (e.g. weddings, parties, club events, non-profit functions).

**Open Space** – Both alternatives will also include generously landscaped common areas including plazas, outdoor seating (for restaurants and public use), and public art.

**Transit Center** – Given the community’s concerns about traffic, we have worked with Council to include a transit center onsite. The transit center will provide the basis for a future connection for rapid transit along State Route 85, 50 onsite parking stalls, and a shuttle drop-off/pick-up area, thus removing commuter buses and improving pedestrian and bike safety along Mary Avenue.

**Underground Parking** – All parking (1,480 spaces) will be located on three underground levels, thereby reserving the ground floor as a vibrant, pedestrian-friendly urban space.

**Offsite Mobility Improvements** – Both alternatives will fund significant roadway and intersections improvements on Stevens Creek Boulevard and Mary Avenue, as well as improving pedestrian and bikeway access along Mary Avenue, providing a variety of city-wide bikeway improvements, contributing to the City’s Safe Routes to School, contributing to a future City-sponsored shuttle program, and other mobility initiatives.

**Affordable Housing** -- To encourage the development of affordable and senior housing, both alternatives include a residential density bonus request to allow the onsite construction of affordable housing, particularly for seniors.

### Alternative 1 – Mixed-Use Residential

In addition to the land uses described above, this alternative will help the City meet its Housing Element goals while also helping the City address the current jobs-housing imbalance.

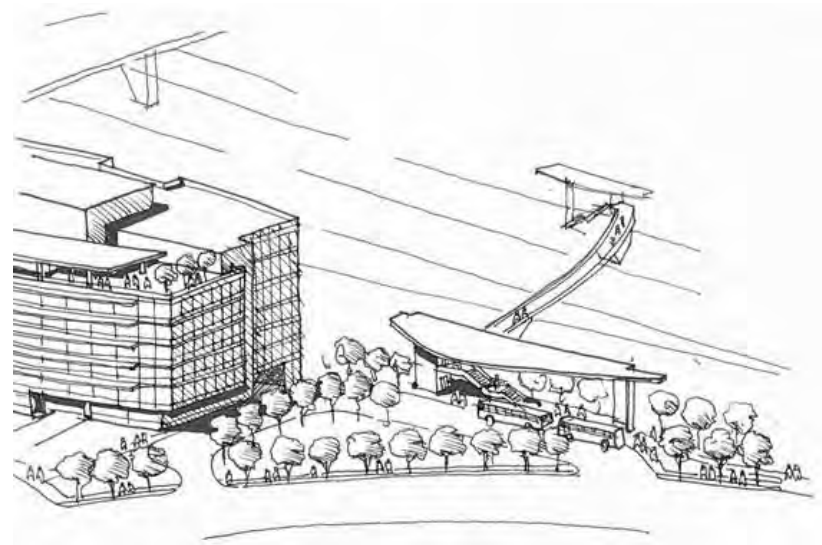
*The alternative is similar in size and scope to the recently approved Hamptons Redevelopment project, which allowed for a density of 76 units/net acre and a maximum height of 75 feet.*

### Residential

Accordingly, this Mixed-Use Residential Alternative will include 605 residential units; 200 units from existing zoning, 248 in additional allocation, and 157 units (35% density bonus). The residential units will include both market rate and senior affordable housing. Under this alternative, we have maintained a 15% affordable housing commitment which provides greater affordability rates than what is required by the City’s BMR Housing Program.

### General Plan Amendments

Requested Amendment	Rationale
Increase in building height	<ul style="list-style-type: none"> <li>■ To create a “gateway” site consistent with the Heart of the City Specific Plan.</li> <li>■ To provide density that supports below grade parking, transit center, movie theatre and open plazas.</li> </ul>
Increase in the residential unit allocation	<ul style="list-style-type: none"> <li>■ To provide more affordable housing per the City’s BMR program.</li> </ul>



*Conceptual Image of Transit Center*



Figure 1: Alternative 1 Mixed-Use Residential Conceptual Illustration





## Alternative 2 – Mixed-Use Gateway

The Mixed-Use Gateway is envisioned as a vibrant mixed-use site deserving of its gateway location in the City of Cupertino. In addition to the land uses described above for both alternatives, this alternative includes office, hotel, and residential.

### Class A Office

Today's technology companies require work environments that allow them to compete globally. Most existing office inventory in Cupertino consists of Class B and C product that meets neither employers' needs nor the growing demand for local companies to expand. The project's new Class A, 280,000 sf., office building will allow the City to diversify its corporate base and attract a headquarters' user in the western area of the City.

The Community Vision 2040 General Plan establishes a city-wide office allocation of approximately 500,000 sf. for "major companies" pursuant to Chapter 3 Strategy LU-1.2.2. We propose to utilize 280,000 sf. from the "major companies" allocation for Class A office use on this project site. If the City decides to not allow us to utilize the "major companies" allocation, the project will require an allocation of 280,000 sf. of office space.

### Flagship Hotel

A flagship 170-room hotel (integrated with the boutique movie theater and community center), will include a rooftop

restaurant/lounge and modern amenities that will generate significant incremental tax revenue for the City.

### Residential

The opportunity to provide housing near jobs will help reduce local trips and improve the jobs-housing imbalance in the City of Cupertino. For this alternative, the applicant is requesting a density bonus of 35% over the allowed 200 units for a total of 270 residential units, which will consist of market rate as well as affordable housing for seniors. As compared to our previous submittal, we have increased our affordable housing commitment to 20%, thereby providing greater affordability rates than what is required by the City's BMR Housing Program.



## General Plan Amendments

Requested Amendment	Rationale
General Plan land use designation of Office.  An increase in office allocation of 280K sf.	<ul style="list-style-type: none"> <li>To allow the City to diversify its corporate base and attract a headquarters' user in the western area of the City; and increase office inventory for Cupertino based start-up companies.</li> </ul>
Increase in the hotel allocation of 170 rooms.	<ul style="list-style-type: none"> <li>To provide a flagship hotel.</li> <li>To provide increased direct and indirect fiscal benefits to the City.</li> </ul>
Increase in building height.	<ul style="list-style-type: none"> <li>To create a "gateway" site consistent with the Heart of the City Specific Plan.</li> <li>To provide density that supports below grade parking, transit center, movie theater and open plazas.</li> </ul>
Variation of the Slope Setback on Stevens Creek Boulevard	<ul style="list-style-type: none"> <li>To accommodate building design requirements for the office and hotel buildings.</li> </ul>

## Changes from Prior Submittal

Following is a summary of changes from the previous Oaks GPA Authorization application (2016):

- Addition of an on-site transit center and associated improvement to accommodate access to a future transit facility on Highway 85.

- Addition of designated space for start-up firms or small office users within the office building.
- Expansion of the community center.
- Addition of a five-screen boutique movie theater with a café/lounge.
- Additional level of below grade parking.
- Greater number of affordable housing units, all constructed onsite.
- Hotel with rooftop restaurant and lounge.
- Major refinements to the architectural features and massing.
- Increased public and private open space and rooftop gardens.
- Addition of conforming slope setbacks on Stevens Creek Boulevard.
- Additional roadway improvements on Mary Avenue beyond project frontage.
- Increased voluntary community amenities with greater City flexibility.
- Redesign of senior residential building to include more rooftop garden open space, greater visibility to public art, and enhanced interior unit designs.
- Complete reconfiguration of interior retail boulevard to enhance outdoor dining and public art, add on-street parking, and improve walkability.



Figure 2: Alternative 2 Mixed-Use Gateway Conceptual Illustration





[illegible]

**Table 1: Westport Cupertino Alternatives Overview**

	Alternative 1 Mixed-Use Residential	Alternative 2 Mixed-Use Gateway
<b>Planning</b>		
General Plan Designation	Commercial/Residential	Commercial/Office/Residential
Zoning Designation	Planned Zoning with General Commercial and Residential Uses	Planned Zoning with General Commercial, Professional Office and Residential Uses
Lot Coverage   Floor Area Ratio	40%   2.105	42%   2.157
<b>Land Uses</b>		
Office	--	280,000 sf.
Retail (includes boutique movie theater)	69,500 sf.	69,500 sf.
Community Center	4,000 sf.	4,000 sf.
Hotel	--	170 rooms
Housing Element Residential Allocation	200 units	200 units
Additional Residential Allocation	248 units	--
Subtotal	448	200
<i>Affordable % (Very Low   Low)</i>	<i>15% (11%   4%)</i>	<i>20% (11%   9%)</i>
<i>Senior Affordable</i>	<i>67 units</i>	<i>40 units</i>
<i>Senior Unrestricted</i>	<i>3 units</i>	<i>30 units</i>
Market Rate	535 units	200 units
Density Bonus (@ 35%)	157 units	70 units



	Alternative 1 Mixed-Use Residential	Alternative 2 Mixed-Use Gateway
<b>Total Residential Units Requested</b>	<b>605 units</b>	<b>270 units</b>
<b>Building Heights</b>		
Office	--	88 feet
Hotel	--	70 feet
Residential	35 - 75 feet	35 - 60 feet
<b>Slope Line (Setback : Height)</b>		
Stevens Creek Boulevard (Residential)	1 : 1	1 : 1
Stevens Creek Boulevard (Hotel)	--	2 : 1
Stevens Creek Boulevard (Office)	--	3 : 1
Mary Avenue	N/A	N/A
<b>Setbacks</b>		
Front (South property line – Stevens Creek Boulevard)	35'-0"	35'-0"
Side – Interior (West property line – along State Route 85)	0'-0"	0'-0"
Side – Street Side (North property line – Mary Avenue)	9'-0"	9'-0"
<b>Parking <sup>1</sup></b>		
Office	--	982
Hotel	--	190

	Alternative 1 Mixed-Use Residential	Alternative 2 Mixed-Use Gateway
Residential	1,210	540
Retail	168	168
Theater	102	102
Community Center	16	16
Transit Center	50	50
Short-term (residential/retail)	23	23
<b>Total Vehicle Parking Provided</b>	<b>1,503</b>	<b>1,503</b>
Separate Use	1,546	2,021
Shared Use	1,513	1,751
Variance from Shared Use	(10)	(248)
<b>Open Space</b>		
Private - Residential	60 sf./unit (patio)	60 sf./unit (patio)
Residential Common Space	42,350 sf.	21,600 sf.
Residential Landscape @70%	29,675 sf.	15,120 sf.
Residential Hardscape @30%	12,675 sf.	6,480 sf.
Office	--	7,000 sf.
Retail	1,750 sf.	1,750 sf.

Notes:

1. Per City of Cupertino Municipal Code Table 19.124.040(A)

**Table 2: Requested General Plan Amendments and Exceptions**

Requirement/Standard	Allowed/Required	Alternatives 1 Mixed-Use Residential	Alternative 2 Mixed-Use Gateway
<b>General Plan Amendments</b>			
General Plan Designation	Commercial/Residential	No Change	Commercial/Office/Residential
<b>Development Allocation</b>			
Office	--	--	280,000 sf.
Hotel	--	--	170 rooms
Residential Total	200 units	448 units	--
<b>Building Heights</b>			
Office	45 feet	--	88 feet
Hotel	45 feet	--	70 feet
Residential	45 feet	30-75 feet	30-60 feet
<b>Slope Setback</b>			
Stevens Creek Boulevard	1 : 1	--	3 : 1 Office 2 : 1 Hotel

Requirement/Standard	Allowed/Required	Alternatives 1 Mixed-Use Residential	Alternative 2 Mixed-Use Gateway
<b>Exceptions</b>			
<b>Open Space (per Heart of the City Specific Plan)</b>			
Residential common open space	150 sf./unit or 40,500 sf. total	70 sf./unit	80 sf./unit
<b>Setback (per Heart of the City)</b>			
Side – Interior (West property line – along State Route 85) for Transit Center	½ height of building (20 feet) or 10 feet, whichever is greater	0'-0"	0'-0"
Side – Interior (West property line – along State Route 85) for Office	½ height of building (44 feet) or 10 feet, whichever is greater	--	10'-0"
<b>Parking (per Zoning)</b>			
Shared Use	Per parking study	Per parking study	Per parking study

## Consistency with City Plans and Policies

### Westport Cupertino is **Consistent with the City's General Plan** Guiding Principles

General Plan Guiding Principles	How Westport Cupertino is Consistent
Develop Cohesive Neighborhoods	<ul style="list-style-type: none"><li>■ Increases the quality of life for all Cupertino residents through significant voluntary community amenities for the City.</li><li>■ Responds to the surrounding neighborhood context through stepped-back building massing and pedestrian and mobility connectivity.</li><li>■ Responds to the surrounding site context by providing active retail and commercial space along Stevens Creek Boulevard and easy pedestrian access from Memorial Park, De Anza College, and the adjacent residential community.</li></ul>
Improve Public Health   Safety	<ul style="list-style-type: none"><li>■ Funds Mary Avenue and Stevens Creek Boulevard road improvements, adjacent safety enhancements, and the City's Safe Routes to Schools program.</li><li>■ Meets and exceeds accepted sustainability standards and strategies by employing Smart Growth land use planning principles and adopting green building design and construction methodologies.</li><li>■ Incorporates a comprehensive TDM program that will help reduce traffic to combat greenhouse gases and global warming.</li></ul>
Improve Connectivity	<ul style="list-style-type: none"><li>■ Includes an on-site Transit Center as well as on and off-site bike path enhancements that will improve connectivity and enhance mobility.</li><li>■ Increases pedestrian walkability and connectivity at grade level due to below-grade parking.</li></ul>

## General Plan Guiding Principles

### Enhance Mobility

### Enhance a Balanced Community

### Support Vibrant | Mixed-Use Businesses

### Ensure Attractive Design

### Support Education

### Ensure Fiscal Self-Reliance

## How Westport Cupertino is Consistent

- Allows connection to future rapid transit along Highway 85 corridor through new transit center.
- Facilitates last mile connection through shuttle bus service for office, hotel and residential uses
- Improves the balance between jobs and housing in Cupertino and promotes public transit through the construction of a new transit center.
- Create a vibrant mixed-use gateway entertainment district complete with a boutique movie theater, ground floor retail uses and conference facilities with potential partnerships opportunities for use by local schools, city departments, and community groups.
- High-quality architectural design integrated into a richly landscaped public realm. Achieves LEED Silver certification.
- Community amenities support the construction of permanent classroom facilities at Garden Gate Elementary and provide increased tax revenues for schools. Generates significant one-time and recurring revenue for the Cupertino Union School District and the Fremont Union High School District.
- Enhances the City's economic vitality and fiscal stability by strengthening the City's tax base through the redevelopment of an obsolete commercial center.

## Westport Cupertino is **Consistent** the City's General Plan **Land Use and Housing Element Policies**

General Plan Land Use Policies	How Westport Cupertino is Consistent
1.1: Focus higher land use intensities and densities within a half-mile of public transit service, and along major corridors.	<ul style="list-style-type: none"> <li>■ The project site lies at the intersection of State Route 85 and Stevens Creek Boulevard, the western gateway to the City and one block west of the Rapid 523 Bus Stop at Stelling Road and Stevens Creek Boulevard.</li> </ul>
1.2.2: Reserve development allocations for major companies and corporate headquarters.	<ul style="list-style-type: none"> <li>■ Structural shifts in the workplace are driving demand for innovative mixed-use environments and should be made available to leading technology companies like Apple and other corporate users.</li> </ul>
1.3.1 and 5.2: Create viable retail space along the ground floor street frontage.	<ul style="list-style-type: none"> <li>■ Significant ground floor retail will activate Stevens Creek Boulevard, creating a neighborhood retail and entertainment destination. Removes unsightly surface parking lot.</li> </ul>
1.4.1 (2): Mixed-use residential projects should be designed on the “mixed-use village” concept.	<ul style="list-style-type: none"> <li>■ Incorporates residential and retail uses and community benefits, integrated with adjacent neighborhoods.</li> </ul>
2.1: Creates an opportunity to redevelop the property into a gateway.	<ul style="list-style-type: none"> <li>■ Redevelops an aging and outdated retail space into a vibrant, community-focused gateway site.</li> </ul>
2.2: Incorporate pedestrian-scaled parks, plazas, entries, outdoor dining, and public art.	<ul style="list-style-type: none"> <li>■ Incorporates plazas, outdoor eating spaces, open space, and significant public art.</li> </ul>
3.3.3: Transition building height and massing with existing development.	<ul style="list-style-type: none"> <li>■ Building massing transitions from existing heights along Mary Avenue to project site.</li> </ul>
3.3.5 and 3.3.6: Locate buildings closes to the street and promote high-quality architecture.	<ul style="list-style-type: none"> <li>■ Buildings are located adjacent to the streets and incorporate a rich variety of high-quality materials and associated landscaping.</li> </ul>
5.1: Retain and enhance local neighborhood shopping centers and improve pedestrian and bicycle access to neighborhoods to improve access to goods and services.	<ul style="list-style-type: none"> <li>■ Revitalizes an aging retail center and incorporates a mobility hub and a transit center.</li> </ul>

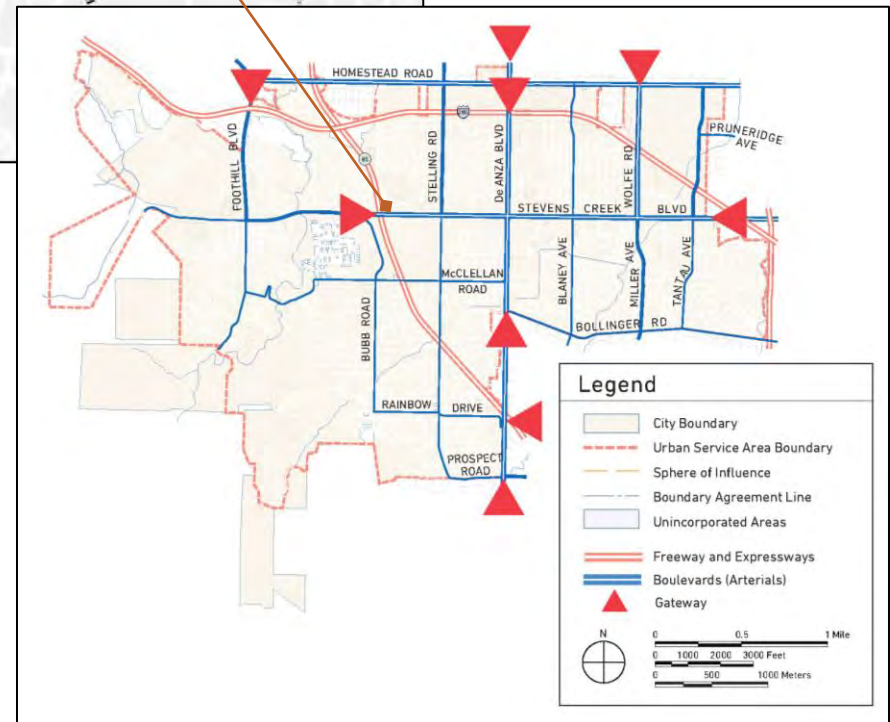
General Plan Land Use Policies	How Westport Cupertino is Consistent
8.3.1: Encourages reinvestment and revitalization of sales-tax producing uses.	<ul style="list-style-type: none"> <li>■ Redevelops an outdated retail center into a vibrant mixed-use development that will significantly increase City sales tax revenue.</li> </ul>
8.3.2: Utilizes shared parking between office, residential and retail uses.	<ul style="list-style-type: none"> <li>■ Constructs an underground parking structure that will make more efficient use of the land and provides shared parking between uses.</li> </ul>
9.1.3: Encourages new businesses and retains existing businesses contributing to the City’s economic vitality.	<ul style="list-style-type: none"> <li>■ Supports retention of the existing business including the boutique movie theater and restaurants.</li> </ul>
9.2.1: Encourage office development to locate in areas where workers can walk or bike to services such as shopping and restaurants.	<ul style="list-style-type: none"> <li>■ Constructs a significant number of improvements that will support pedestrian, bike, and transit mobility options for Cupertino residents.</li> </ul>
11.1: Create pedestrian and bicycle access between new developments and community facilities.	<ul style="list-style-type: none"> <li>■ Constructs numerous on-and off-site pedestrian and bikeway improvements, including a safer connection to Memorial Park and De Anza Community College.</li> </ul>
General Plan Housing Element Policies	How Westport Cupertino is Consistent
1.2: Project a full range of densities for ownership and rental housing.	<ul style="list-style-type: none"> <li>■ Accommodates both ownership and rental housing in different configurations.</li> </ul>
1.3: Encourage mixed-use development near transportation facility and employment centers.	<ul style="list-style-type: none"> <li>■ Features include a transit center, access to a future VTA Transit Station, and numerous off-site pedestrian and bikeway improvements.</li> </ul>
2.3: Develop affordable housing and housing for persons of special needs.	<ul style="list-style-type: none"> <li>■ Provides up to 20% Below Market Rate (or BMR) housing, including accommodation for seniors.</li> </ul>



The City of Cupertino clearly recognizes the significance of the **gateway** function of the project site



*Heart of the City Specific Plan*



*General Plan Land Use Element Figure LU-1*

## Consistency with GPA Amendment Authorization Evaluation Criteria

Evaluation Criteria	Consistency Statement	
<b>Site and architectural design and neighborhood compatibility</b>	<ul style="list-style-type: none"> <li>■ High quality design, building finishes.</li> <li>■ Bike and pedestrian friendly.</li> <li>■ Compatible interface with surrounding uses.</li> </ul>	
<b>Fiscal impacts, including a diverse economic base</b>	<ul style="list-style-type: none"> <li>■ Up to \$17 in City impact fees.</li> <li>■ Up to \$1.2M in annual City General Fund revenue.</li> <li>■ Up to \$2. 3M in school construction fees.</li> <li>■ Up to \$1.9M in annual school tax revenue.</li> </ul>	
<b>Provision of affordable housing</b>	<ul style="list-style-type: none"> <li>■ 15-20% affordable housing built onsite at higher affordability rates than what is required by the City's BMR program.</li> <li>■ Significantly improves the City's existing BMR rental inventory from 138 units to up to 205 units, a potential 49% increase.</li> </ul>	
<b>Environmental sustainability</b>	<ul style="list-style-type: none"> <li>■ Transit center and TDM Program.</li> <li>■ Low impact development methods including impervious surfaces.</li> <li>■ Native and drought tolerant plants.</li> <li>■ High efficiency plumbing and heating/cooling systems.</li> <li>■ Building materials with high-recycled content.</li> <li>■ LEED Silver certification.</li> </ul>	
<b>General Plan amendment requests</b>	<u>Alternative 1 – Mixed-Use Residential</u> <ol style="list-style-type: none"> <li>1. An increase in building height.</li> <li>2. An increase in the residential unit allocation.</li> </ol>	<u>Alternative 2 – Mixed-use Gateway</u> <ol style="list-style-type: none"> <li>1. A General Plan designation of Office.</li> <li>2. Increase office allocation.</li> <li>3. Increase in the hotel room allocation.</li> </ol>

Evaluation Criteria	Consistency Statement	
		<p>4. An increase in the building height.</p> <p>5. Variation of the Slope Setback on Stevens Creek Boulevard.</p>
<b>Proposed voluntary community amenities</b>	<ul style="list-style-type: none"> <li>■ Schools, public facilities and transportation including Safe Routes to Schools program</li> <li>■ Total estimated value is \$8.7 million.</li> </ul>	
<b>Staff time and resources</b>	<ul style="list-style-type: none"> <li>■ Applicant will pay costs to process project.</li> </ul>	

## Provision for Affordable Housing

Both alternatives' housing programs are responsive to all market segments including market rate housing, below market rate housing and senior housing; and will help the City meet its regional housing needs as mandated by State law. We recognize that one of the most difficult issues for the City is identifying land to build below market rate housing. In response to this constraint, we are **proposing to build the below market rate units onsite**, and will enter into a voluntary agreement with the City for the construction of the below market rate rental units as stipulated by the City's Below Market Rate (BMR) Housing Mitigation Program.

### **Both alternatives will construct on-site affordable housing.**

In addition to paying mitigation fees for the non-residential components of the project, both alternatives will build below market rate units onsite.

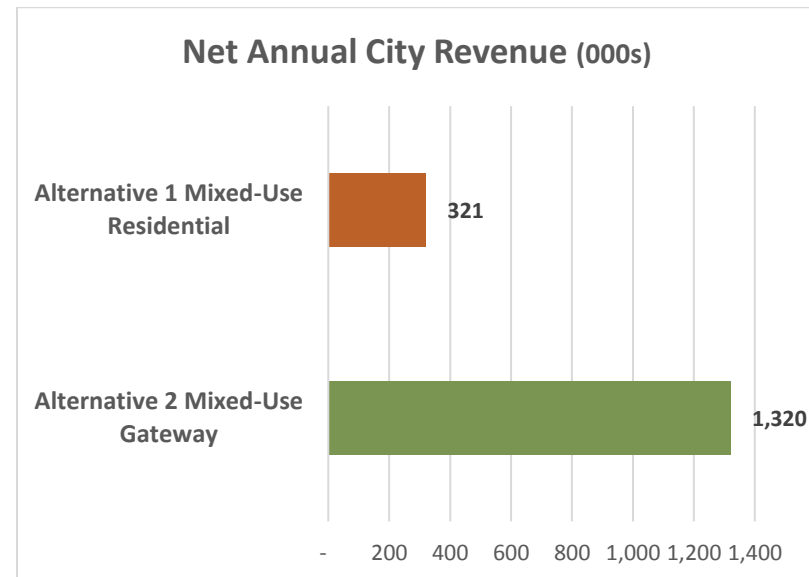
The Mixed-Use Residential alternative will exceed the City's affordability requirements by building 15% of the units (67) at below market rate of which 11% (49 units) will be built at very low income levels and 4% (18 units) will be built at low income levels.

The Mixed-Use Gateway alternative will exceed the City's affordability requirements by building 20% of the units (40) at below market rate of which 11% or 22 units will be built at very low income levels and 9% or 18 units will be built at low income levels.

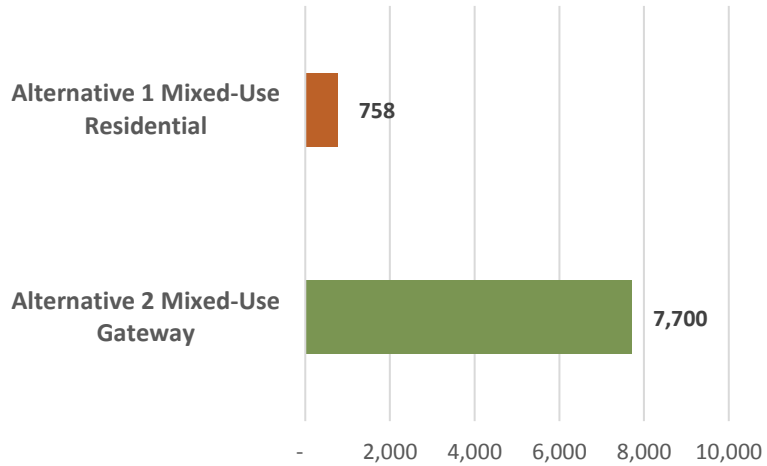
## Net Fiscal Impacts

KT Urban retained Applied Development Economics to complete a fiscal impact analysis which examines the proposed project's estimated net fiscal impact on the City's General Fund budget and the City's two school districts; the Cupertino Union School District (CUSD) and the Fremont Union High School District (FUHSD). The analysis also includes an estimation of the net fiscal impact of the current Oaks retail development in its current underutilized state.

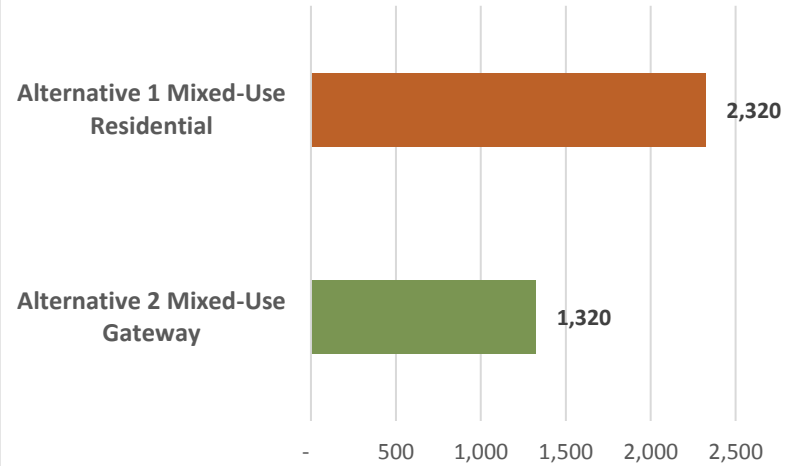
A complete copy of the report can be found in [Appendix C: Westport Cupertino Summary Fiscal Impact Analysis](#). A summary of key findings is presented below.



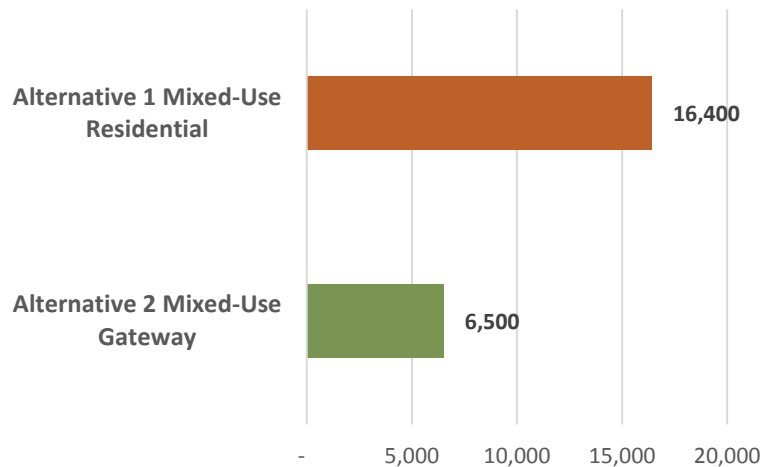
**Affordable Housing Contribution (000s)**



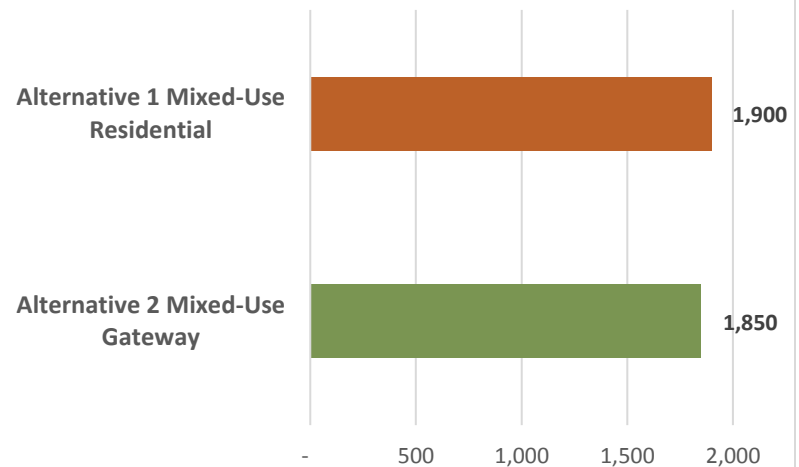
**School Construction Fees (000s)**



**Parkland Dedication Contribution (000s)**



**School Annual Tax Revenue (000s)**



ONGOING		ONE TIME	
CITY	 <p><u>Alternative 1: Mixed-Use Residential</u>  Projected Tax Revenue \$830,100  Projected Expenditure \$691,500  <b>Net City Revenue \$138,600</b></p> <p><u>Alternative 2: Mixed-Use Gateway</u>  Projected Tax Revenue \$1,554,300  Projected Expenditure \$ 333,400  <b>Net City Revenue \$1,220,900</b></p>	 <p><u>Alternative 1: Mixed-Use Residential</u>  Affordable Housing \$758.5 K  Park Land Dedication \$16.4 M  <b>City Impact Fees \$17.1M</b></p> <p><u>Alternative 2: Mixed-Use Gateway</u>  Affordable Housing \$ 7.7 M  Park Land Dedication \$ 6.5 M  <b>City Impact Fees \$14.2M</b></p>	CITY
SCHOOL DISTRICT	 <p><u>Alternative 1: Mixed-Use Residential</u>  Projected Tax Revenue \$1.9M  Projected Total Students 365  <b>Revenue / student \$5.2K</b></p> <p><u>Alternative 2: Mixed-Use Gateway</u>  Projected Tax Revenue \$1.85M  Projected Total Students 156  <b>Revenue / student \$12.0 K</b></p>	  <p><b>School Construction Fees</b>  Alternative 1: \$2.32 m  Alternative 2: \$1.32 m</p>	SCHOOL DISTRICT



## Transportation and Mobility

### Alternative 1: Mixed-Use Residential

While a detailed traffic impact analysis (TIA) was not prepared for Alternative 1, the number of additional trips forecast to be generated is less than that of Alternative 2, and therefore no additional impacts are expected. Should Alternative 1 be selected to proceed through the application process, a detailed TIA will be prepared.

### Alternative 2: Mixed-Use Gateway

A TIA was prepared by SANDIS for Alternative 2 Mixed-Use Gateway. The TIA used the Santa Clara Valley Transit Agency (VTA) TIA Guidelines and the City of Cupertino 2014 General Plan EIR as a baseline. A total of six (6) intersections were evaluated for potential for impacts using the following scenario conditions: Existing, Existing + Project, Cumulative, Cumulative + Project.

During the Existing + Project condition, Alternative 2 is forecast to increase the average delay at study intersections between 0.2 and 7.2 seconds. These increases would not result in the reduction of LOS for any study intersections.

During the Cumulative + Project condition, Alternative 2 is forecast to increase the average delay at study intersections between 0.2 and 8.9 seconds. Because of these increases, the intersection level of service (LOS) at Stevens Creek Boulevard and Mary Avenue would increase from LOS D to LOS E during

the PM peak hour. To mitigate this LOS increase, the addition of a second eastbound left turn lane was identified. This additional lane could be accommodated within the existing Stevens Creek Boulevard right-of-way.

### Summary

KT Urban understands that the traffic analysis will be fully reviewed by the City as part of the environmental review process.

## Voluntary Community Amenities

Consistent with the City's adopted General Plan Amendment policy, KT Urban is proposing a number of voluntary public amenities as part of its application. These voluntary amenities reflect needs identified by the City and community, based on our extensive neighborhood and public outreach efforts.

Our outreach efforts also included numerous meetings with the Cupertino Union School District, Fremont Union High School District, De Anza College, Friends of Stevens Creek Trail, Walk Bike Cupertino, Santa Clara County League of Conservation Voters, Mineta Transportation Institute, Cupertino Rotary, and the Cupertino Chamber of Commerce, among others.

In total, we are proposing approximately \$8.7 million in voluntary public amenities under both alternatives.





**Table 3: Voluntary Community Amenities**

Description	Beneficiary	Alternative 1 Mixed-Use Residential	Alternative 2 Mixed-Use Gateway
<b>School Resources</b>			
Cash contribution for construction of permanent school facilities	Cupertino Union School District (CUSD)	\$1.0 million	\$1.0 million
<b>Public Open Space</b>			
Cash contribution to Public Open Space such as Memorial Park	City of Cupertino	\$300,000	\$300,000
<b>Public Facilities</b>			
Public Art (in excess of the required \$100,000)	City of Cupertino	\$250,000	\$250,000
<b>Transportation</b>			
Road Improvements, safety enhancements and safe routes to schools along Stevens Creek Boulevard and Mary Avenue	City of Cupertino	\$3.0 million	\$3.0 million
Construction of Onsite Transit Center	City of Cupertino	\$3.5 million	\$3.5 million
Construction of Bike Trail along Western project boundary	City of Cupertino	\$250,000	\$250,000
Cash contribution for city-wide shuttle program	City of Cupertino	\$400,000	\$400,000
<b>Total Estimated Value of Community Amenities</b>		<b>\$8.7 million</b>	<b>\$8.7 million</b>

## Westport Cupertino Appendices

- A. Alternative 1 Conceptual Project Plans (under separate cover)
- B. Alternative 2 Conceptual Project Plans (under separate cover)
- C. Westport Cupertino Alternatives Summary Fiscal Impact Analysis

## Appendix C: Westport Cupertino Alternatives Summary Fiscal Impact Analysis

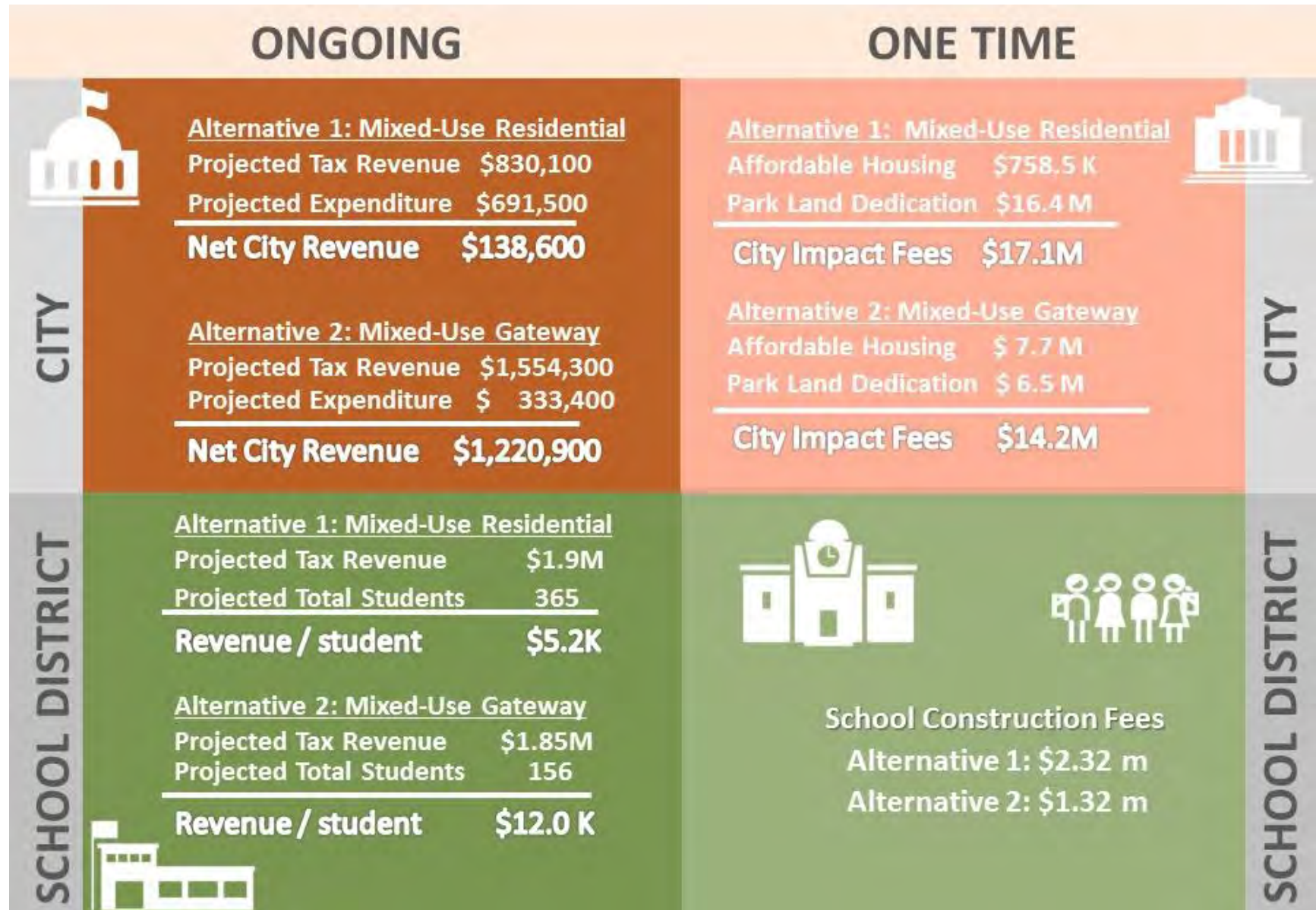
### Summary

KT Urban retained Applied Development Economics to complete a fiscal impact analysis which examines the proposed project's estimated net fiscal impact on the City's General Fund budget. Specifically, the analysis reviews whether projected revenues from the project will adequately cover the costs of delivering citywide services (e.g., police protection, parks and recreation, etc.) to the project's residents and employees. The results estimate the annual fiscal impact assuming build out of all of the project's land use components. The analysis also includes an estimation of the net fiscal impact of the Oaks retail project in its current underutilized state. See *Fiscal Impact Analysis of the Proposed Westport Cupertino Project*, May 2017, prepared by ADE.

Additionally, the analysis reviews the annual fiscal impact to the two school districts serving the project and the City of Cupertino, focusing on a comparison between net property and parcel tax generation and the cost to educate the students.

Finally, this analysis reviews the one-time impact fee payments to the City and school districts, specifically, for affordable housing and parks. The analysis is presented separately for the two project alternatives. Overall, the result of these analyses is summarized in Figure I, and in more detail in subsequent pages of this section of the application.

Figure 1: Fiscal Analysis At-a-Glance



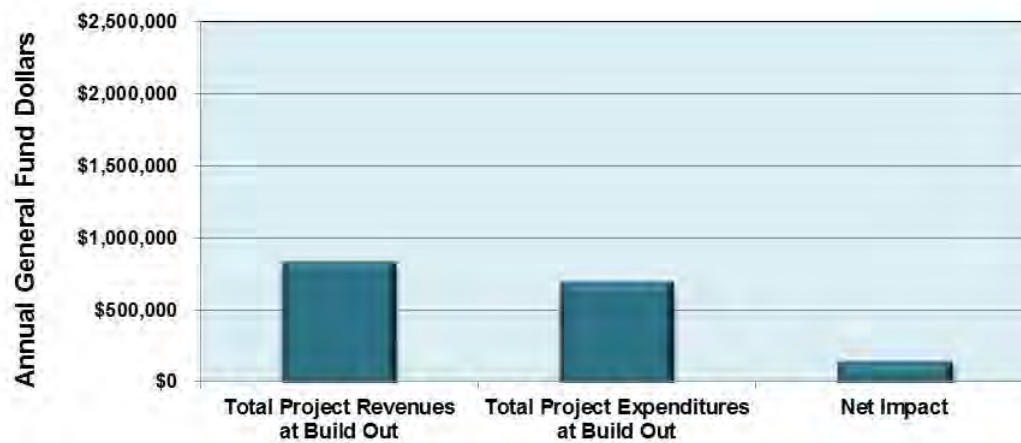
## Alternative 1: Mixed Use Residential

The total annual revenue from Alternative 1 to the City's General Fund and to the school districts is estimated at \$2.1 million. In addition, the Alternative would generate 2.3 million in development impact fees for the school districts.

### Fiscal Impact – City of Cupertino

Provided in Figure 2, below, is a summary of the significant positive net fiscal impact the project will provide the City of Cupertino's General Fund upon completion of Alternative 1.

Figure 2: Mixed Use Residential Alternative Annual Fiscal Impact on City of Cupertino



Source: City of Cupertino FY 2017/2018 Proposed Operating Budget; KT Urban, ADE, Inc.

Some key findings from the fiscal impact analyses are:

- **At build out, annual revenues are estimated to exceed annual expenditures.** The analysis estimates Alternative 1 will result in an annual net fiscal surplus of approximately **\$320,900** for the City's General Fund at build out.
- **As of 2015, the Oaks retail center generates a net fiscal surplus of \$115,513 for the City's General Fund.** The Mixed Use Residential Alternative would improve this fiscal benefit by nearly three times.

## Fiscal Impact – School Districts

In addition to the positive impact to the City of Cupertino, the Westport Cupertino project will also provide significant annual positive net resources to the Cupertino Union School District (CUSD) and Fremont Union High School District (FUHSD). The primary revenues generated by Alternative 1 to these school districts are ad valorem property taxes and parcel taxes. Some of the key findings are:

- Overall, Alternative 1 is estimated to generate approximately \$1.7 million in additional property tax revenue to the school districts on an annual net basis. This figure relates to net new property taxes paid to the CUSD and FUHSD combined, above the current property tax payments of \$113,000 to the two districts.
- Parcel taxes will generate approximately \$210,540 to the school districts annually. While the current tax measure only requires parcel taxes be paid on single ownership parcels regardless of the number of dwelling units on them, the developer has offered to extend this parcel tax to all residential units with the provision of a condominium map.
- Based on data provided by the school district, the residential alternative will generate less property tax and parcel taxes than the cost to educate the students from the project. School officials estimate that their current annual cost per student (or base revenue needed) is approximately \$8,600 per student, and the preferred target revenue per student is \$12,700 for all services. The number of students estimated by the two districts for this site at build out is 365 K-12 students. The residential alternative will generate nearly \$1,900,000 in property and parcel taxes at build out, or \$5,200 per student.

## City/School District Impact Fees

In addition to ongoing fiscal impact, the analysis reviewed the one-time impact of capital infrastructure fees paid by the project in development of all project components. These fees are paid both to the City of Cupertino and the two school districts based on current ordinances and state statutes. Graphically, a summary of this impact is provided on Figure 1 above, and key findings are as follows:

- **For the City of Cupertino, the project will generate approximately \$16.4 million in Park Dedication Fees for the City.** Overall, the project could generate \$18.6 million in park dedication fees. However, given the project's significant Affordable Housing Program commitment to on-site below market rate units and Senior Housing, and the project's adjacency to the large Memorial Park, KT Urban is requesting a waiver of park dedication fees for the below market rate (BMR) and senior residential units. If approved, the net fees paid by the applicant will still result in a significant contribution toward the City's future park land and improvement needs.

- **The nonresidential components of the proposed project will result in \$758,520 in BMR impact fees paid to the City.** This fee payment is for the retail, theater and community space uses in the Alternative.
- **Alternative 1 will pay \$2.32 million in school construction impact fees.** This contribution, required per state formula for each land use type, represents a significant contribution to each school district for school facility needs.

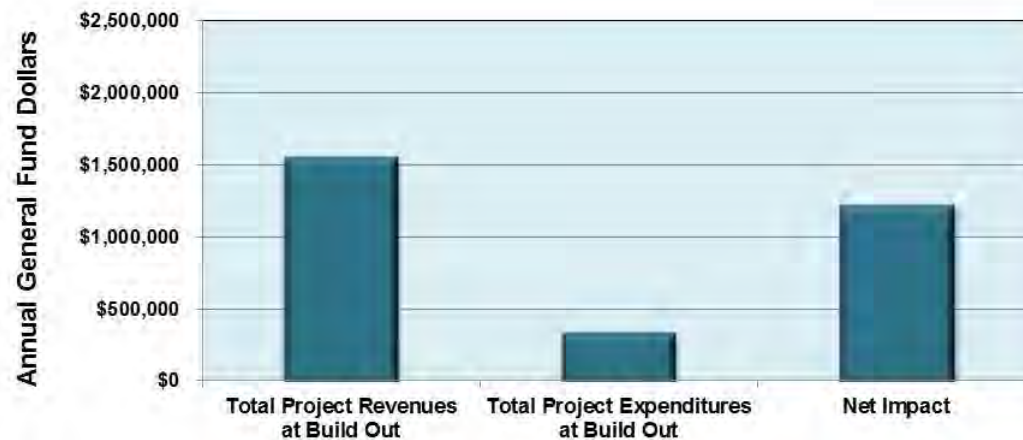
## Alternative 2: Mixed Use Gateway

The total annual revenue from Alternative 2 to the City's General Fund and to the school districts is estimated at \$3.4 million. In addition, Alternative 2 would generate 1.3 million in development impact fees for the school districts.

### Fiscal Impact – City of Cupertino

Provided in Figure 3 is a summary of the significant positive net fiscal impact Alternative 2 will provide the City of Cupertino's General Fund upon completion of the project.

**Figure 3: Mixed Use Gateway Alternative Annual Fiscal Impact on City of Cupertino**



Source: City of Cupertino FY 2017/2018 Proposed Operating Budget; KT Urban, ADE, Inc.

Some key findings from the fiscal impact analysis are:

- **At build out, annual revenues are estimated to exceed annual expenditures.** The analysis estimates Alternative 2 will result in an annual net fiscal surplus of approximately **\$1.3 million** for the City's General Fund at build out.
- **Transient Occupancy Taxes comprise the largest General Fund revenue source, followed by Property Tax and Sales Tax.** The Alternative's transient occupancy taxes, sales tax, and property tax consist of a total of 81% of potential General Fund revenues at project build out.
- **New office development at build out generates \$150,301 of total net fiscal revenue; hotel development would generate a net 1,024,700.** The office uses account for approximately 11% of total annual fiscal impact at build out, as the second largest revenue source after hotel development, which accounts for the majority of the tax revenue from the new development. Residential uses account for 3.4% of the total Alternative net impact and retail uses account for 7.6%.
- **In its current state, the Oaks retail center generates a net fiscal surplus of \$115,513 for the City's General Fund.** This amount equates to less than 10% of what Alternative 2 would produce.
- **Employees currently at the Oaks are estimated at 143, whereas the Mixed-Use Gateway is estimated to generate approximately 1,247 employees.**

### Fiscal Impact – School Districts

In addition to the positive impact to the City of Cupertino, Alternative 2 will also provide significant annual positive net resources to the Cupertino Union School District (CUSD) and Fremont Union High School District (FUHSD). The primary revenues generated by the project to these school districts are ad valorem property taxes and parcel taxes. Some of the key findings are:

- Overall, Alternative 2 is estimated to generate approximately \$1.76 million in additional property tax revenue to the school districts on an annual net basis. This figure relates to net new property taxes paid to the CUSD and FUHSD combined, above the current property tax payments of \$113,000 to the two districts.
- Parcel taxes will generate approximately \$94,000 to the school districts annually. While the current tax measure only requires parcel taxes be paid on single ownership parcels regardless of the number of dwelling units on them, the developer has offered to extend this parcel tax to all residential units with the provision of a condominium map.
- Alternative 2 is estimated to generate approximately \$518,400, on a net fiscal basis, in property taxes and parcel taxes above the base cost estimated to serve these students by the school districts. School officials estimate that their current annual cost per



student (or base revenue needed) is approximately \$8,600 per student, and the preferred target revenue per student is \$12,700 for all services. The number of students estimated by the two districts for this Alternative at build out is 156 K-12 students. This yields a target revenue total of \$1,981,200 (cost of \$1,341,600), whereas the Alternative will generate \$1,860,000 in property and parcel taxes at build out.

### City/School District Impact Fees

In addition to ongoing fiscal impact, the analysis reviewed the one-time impact of capital infrastructure fees paid by the project in development of all project components. These fees are paid both to the City of Cupertino and the two school districts based on current ordinances and state statutes. Key findings are as follows:

- **For the City of Cupertino, the project will generate approximately \$6.5 million in Park Dedication Fees for the City.** Overall, the project could generate \$7.7 million in park dedication fees. However, given the project's significant Affordable Housing Program commitment to on-site below market rate units and Senior Housing, and the project's adjacency to the large Memorial Park, KT Urban is requesting a waiver of park dedication fees for the below market rate (BMR) and senior residential units. If approved, the net fees paid by the applicant will still result in a significant contribution toward the City's future park land and improvement needs.
- **The nonresidential components of the proposed project will result in \$7.7 million in BMR impact fees paid to the City.** This fee payment for retail, office and hotel uses is a significant contribution to the affordable housing fund of the City to meet affordable housing needs throughout the community.
- **Alternative 2 will pay \$1.32 million in school construction impact fees.** This contribution, required per state formula for each land use type, represents a significant contribution to each school district for school facility needs.

May 12, 2017

# Fiscal Impact Analysis

## Westport Cupertino Development

*Prepared for:*

KT Urban, LLC

*Prepared by:*

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# EXECUTIVE SUMMARY

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## INTRODUCTION

This fiscal impact analysis ("Analysis") examines the Project's estimated fiscal impact on the City's annual General Fund budget. Specifically, the Analysis estimates whether projected revenues from the Project will adequately cover the costs of delivering citywide services (e.g., police protection and parks and recreation, etc.) to the Project's residents and employees. The Analysis is based on the assumption that these services will be provided by the City. The results estimate the annual fiscal impact assuming build out of the Project. ADE has prepared this Analysis on behalf of the Property Owner without a dialogue with City staff **regarding the City's budget.**

## PROJECT DESCRIPTION

The Project is located in the South Bay region of the San Francisco Bay Area. It is located in the northwest area of Santa Clara County, south of the City of Sunnyvale and west of the City of San Jose. The Project site is located south of the existing Interstate 280 near the intersection of I-85 and Stevens Creek Blvd. KT Urban is offering two alternative developments for the site.

## ALTERNATIVE 1: MIXED USE RESIDENTIAL

Alternative 1 proposed 605 dwelling units with 42,000 sq. ft. of retail space, a theater and a community events space (Table 1-0). This Alternative would provide 67 Below Market Rate (BMR) Units, of which 47 would be Senior Units. An additional 20 market rate units would also be for seniors. Of the 67 BMR units, 49 would be for Very Low Income households and 18 for Low Income households. The Alternative also proposes approximately 1,470 two-level below grade parking spaces, and 10 surface parking spaces.

## ALTERNATIVE 2: MIXED USE GATEWAY

Alternative 2 proposes 270 residential units of high-density/mixed-use multi-family apartment rental product types with ground floor retail of 42,000 SF (Table 2-0). The residential component includes 70 Senior Units, of which 40 would be BMR units. Of the BMR units, 22 would be for Very Low Income households and 18 would be for Low Income households. **The Project's nonresidential development** also includes 280,000 SF of office, 116,000 SF of hotel, a 27,500 SF theater and 4,000 SF of community center space. The Alternative also proposes approximately 1,470 two-level below grade parking spaces, and 10 surface parking spaces.



TABLE 1-0		
ALTERNATIVE 1 LAND USE SUMMARY AT BUILDOUT		
Buildout Land Use	Dwelling Units	Building Square Feet
Residential Land Uses	<u>Units</u>	<u>Sq. Ft.</u>
Multifamily		
Market Rate Residential Rental Apartments	538	582,654
Low Income BMR Units	49	53,067
Very Low Income BMR Units	18	19,494
Total Residential Land Uses	605	655,215
Nonresidential Land Uses		
Retail	-	42,000
Theater/Community Center	-	31,500
Total Residential and Nonresidential Uses	605	728,715
Parking		
Below Grade Parking	1,470	
Surface Parking	10	
Total Parking	1,480	732,135
Total Alternative 1 Land Uses	-	1,460,850

Source: KT Urban, May 2017

TABLE 2-0		
ALTERNATIVE 2 LAND USE SUMMARY AT BUILD OUT		
BUILD OUT LAND USE	DWELLING UNITS	BUILDING SQUARE FEET
Multi-Family		
Market Rate Residential Rental Apartments	230	234,830
Low Income BMR Units	22	22,462
Very Low Income BMR Units	18	18,378
Total Residential Land Uses	270	275,670
Nonresidential Land Uses		
Office	-	280,000
Retail (Ground floor)	-	42,000
Hotel		116,850
Theater/Community Center		31,500
Total Nonresidential Land Uses		470,350
Total Residential and Nonresidential Uses	270	560,500
Parking		
Below Grade Parking	1,470	
Surface Parking	10	

Total Parking	1,480	732,135
Total Alternative 2 Land Uses	-	1,474,155

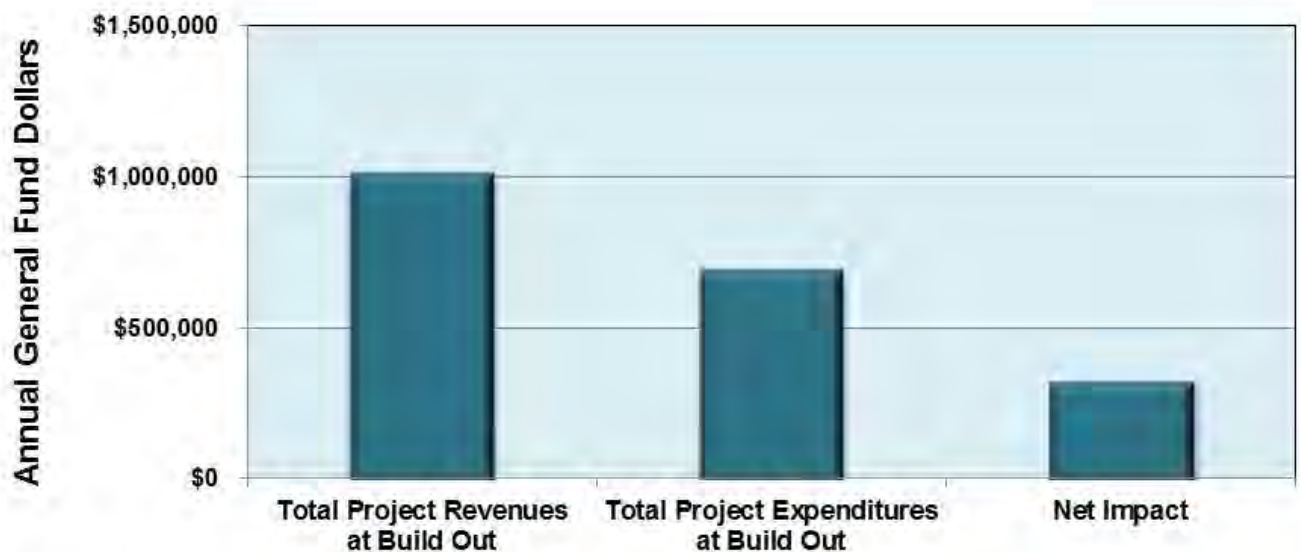
Source: KT Urban, May 2017

## OVERVIEW OF RESULTS

### ALTERNATIVE 1

- At build out, annual revenues are estimated to exceed annual expenditures. The analysis estimates Alternative 1 will result in an annual net fiscal surplus of approximately \$320,900 for the **City's General Fund at build out (Figure 1)**.
- In addition to the positive impact to the City of Cupertino, the Westport Cupertino project will also provide significant annual positive net resources to the Cupertino Union School District (CUSD) and Fremont Union High School District (FUHSD), primarily from ad valorem property taxes and parcel taxes.

Figure 1: Alternative 1 Buildout Fiscal Impact Summary



Source: City of Cupertino FY 2017/2018 Proposed Operating Budget; KT Urban, ADE, Inc.

- Overall, Alternative 1 is estimated to generate approximately \$1.7 million in additional property tax revenue to the school districts on an annual net basis. This figure relates to net

new property taxes paid to the CUSD and FUHSD combined, above the current property tax payments of \$113,000 to the two districts.

- Parcel taxes will generate approximately \$210,540 to the school districts annually. While the current tax measure only requires parcel taxes be paid on single ownership parcels regardless of the number of dwelling units on them, the developer has offered to extend this parcel tax to all residential units with the provision of a condominium map.
- Based on data provided by the school district, the residential alternative will generate less property tax and parcel taxes than the cost to educate the students from the project. School officials estimate that their current annual cost per student (or base revenue needed) is approximately \$8,600 per student, and the preferred target revenue per student is \$12,700 for all services. The number of students estimated by the two districts for this site at build out is 365 K-12 students. The residential alternative will generate nearly \$1,900,000 in property and parcel taxes at build out, or \$5,200 per student.

In addition to ongoing fiscal impact, the analysis reviewed the one-time impact of capital infrastructure fees paid by the project in development of all project components. These fees are paid both to the City of Cupertino and the two school districts based on current ordinances and state statutes.

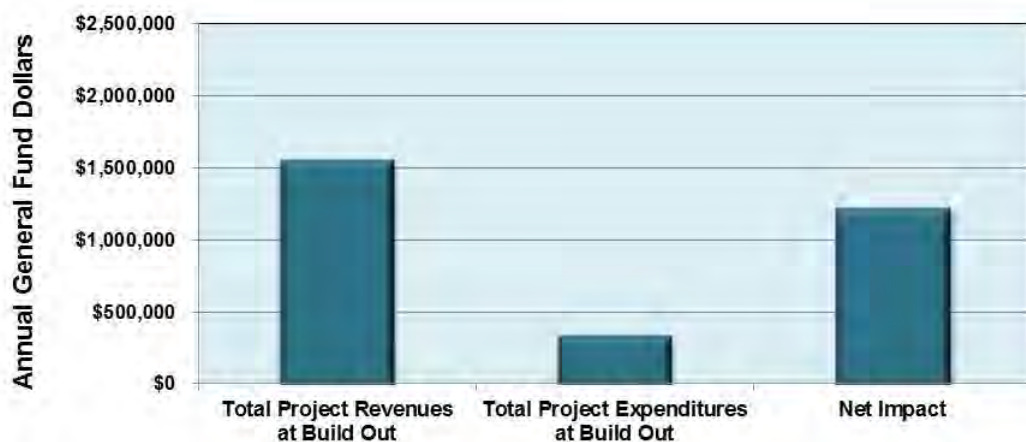
- For the City of Cupertino, the project will generate approximately \$16.4 million in Park Dedication Fees for the City. Overall, the project could generate \$18.6 million in park dedication fees. **However, given the project's significant Affordable Housing Program commitment to on-site below market rate units and Senior Housing, and the project's adjacency to the large Memorial Park, KT Urban is requesting a waiver of park dedication fees for the below market rate (BMR) and senior residential units.** If approved, the net fees paid by the applicant will **still result in a significant contribution toward the City's future park land and improvement needs.**
- The nonresidential components of the proposed project will result in \$758,520 in BMR impact fees paid to the City. This fee payment is for the retail, theater and community space uses in the Alternative.
- Alternative 1 will pay \$2.32 million in school construction impact fees. This contribution, required per state formula for each land use type, represents a significant contribution to each school district for school facility needs.

## ALTERNATIVE 2

- At build out, annual revenues are estimated to exceed annual expenditures. The analysis estimates Alternative 2 will result in an annual net fiscal surplus of approximately \$1.3 million for the **City's General Fund at build out** (Figure 2).

- Transient Occupancy Taxes comprise the largest General Fund revenue source, followed by Property Tax and Sales Tax. The Alternative's **transient occupancy taxes**, sales tax, and property tax consist of a total of 81% of potential General Fund revenues at project build out.
- New office development at build out generates \$150,301 of total net fiscal revenue; hotel development would generate a net \$1,024,700. The office uses account for approximately 11% of total annual fiscal impact at build out, as the second largest revenue source after hotel development, which accounts for the majority of the tax revenue from the new development. Residential uses account for 3.4% of the total Alternative net impact and retail uses account for 7.6%.
- In its current state, the Oaks retail center generates a net fiscal surplus of \$115,513 **for the City's General Fund**. This amount equates to less than 10% of what Alternative 2 would produce.
- Employees currently at the Oaks are estimated at 143, whereas the Mixed Use Gateway is estimated to generate approximately 1,247 employees.

Figure 2: Mixed Use Gateway Alternative Annual Fiscal Impact on City of Cupertino



Source: City of Cupertino FY 2017/2018 Proposed Operating Budget; KT Urban, ADE, Inc.

- Alternative 2 will also provide significant annual positive net resources to the Cupertino Union School District (CUSD) and Fremont Union High School District (FUHSD). Overall, Alternative 2 is estimated to generate approximately \$1.76 million in additional property tax revenue to the school districts on an annual net basis. This

figure relates to net new property taxes paid to the CUSD and FUHSD combined, above the current property tax payments of \$113,000 to the two districts.

- Parcel taxes will generate approximately \$94,000 to the school districts annually. While the current tax measure only requires parcel taxes be paid on single ownership parcels regardless of the number of dwelling units on them, the developer has offered to extend this parcel tax to all residential units with the provision of a condominium map.
- Alternative 2 is estimated to generate approximately \$518,400, on a net fiscal basis, in property taxes and parcel taxes above the base cost estimated to serve these students by the school districts. School officials estimate that their current annual cost per student (or base revenue needed) is approximately \$8,600 per student, and the preferred target revenue per student is \$12,700 for all services. The number of students estimated by the two districts for this Alternative at build out is 156 K-12 students. This yields a target revenue total of \$1,981,200 (cost of \$1,341,600), whereas the Alternative will generate \$1,860,000 in property and parcel taxes at build out.
- City/School District Impact Fees. In addition to ongoing fiscal impact, the analysis reviewed the one-time impact of capital infrastructure fees paid by the project in development of all project components. These fees are paid both to the City of Cupertino and the two school districts based on current ordinances and state statutes.
- For the City of Cupertino, the project will generate approximately \$6.5 million in Park Dedication Fees for the City. Overall, the project could generate \$7.7 million in park dedication fees. **However, given the project's significant Affordable Housing Program commitment to on-site below market rate units and Senior Housing, and the project's adjacency to the large Memorial Park, KT Urban is requesting a waiver of park dedication fees for the below market rate (BMR) and senior residential units. If approved, the net fees paid by the applicant will still result in a significant contribution toward the City's future park land and improvement needs.**
- The nonresidential components of the proposed project will result in \$7.7 million in BMR impact fees paid to the City. This fee payment for retail, office and hotel uses is a significant contribution to the affordable housing fund of the City to meet affordable housing needs throughout the community.
- Alternative 2 will pay \$1.32 million in school construction impact fees. This contribution, required per state formula for each land use type, represents a significant contribution to each school district for school facility needs.

## ORGANIZATION OF THE ANALYSIS

The following chapter discusses the methodology for the analysis, followed by a Chapter with the detailed fiscal tables for each alternative. The Appendix contains the base budgetary and demographic data for the City of Cupertino used in the analysis.



# METHODOLOGY AND ASSUMPTIONS

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This section details the underlying methodology and assumptions used to estimate the fiscal impact of the Project on the City. It describes assumptions concerning municipal service delivery, land development, and General Fund budgeting. In addition, it details the methodology used to forecast the Project's **General Fund** revenues and expenditures at build out.

The Analysis examines the Project's ability to generate adequate revenues to cover the **City's** costs of providing public services to the Project. The services analyzed in this Analysis include General Fund services (e.g., police, recreation and community services, and general government). The Analysis excludes any services that may be funded privately and services funded by user rates or other enterprise funds. In addition, this Analysis also does not include an evaluation of capital facilities, capital improvement costs, or funding of capital facilities needed to serve new development.

## GENERAL ASSUMPTIONS

The Analysis is based on the **City of Cupertino's Fiscal Year (FY) 2017-2018** proposed operating budget, tax regulations, statutes, and other supplemental information from the City. Each revenue item is estimated based on current State legislation and current City practices. Future changes by either State legislation or County and City practices can affect the revenues and expenditures estimated in this Analysis. **The City's operating budget cost categories are shown in** Appendix Table A-1. ADE adjusted the cost categories and allocated the cost by department, based on expenditure stated in each department costs. For the expenditure items, all onetime costs and salaries are adjusted, and all costs and revenues are shown in constant 2017 dollars. General fiscal and demographic assumptions are detailed in Appendix A-2.

The Analysis also uses information from the Property Owner, as well as historical data and projected demographic data from the California Department of Finance (DOF), U.S. Census, U.S. Bureau of Labor Statistics, and the City of Cupertino.

This Analysis also uses other **critical assumptions that affect the Project's value at** build out including: residential home values, average rent and unit square feet, densities, product types, persons-per-household, and vacancy rates in the **City's current real estate market**. The results of this Analysis will vary if the development plans or other assumptions change from those included with this Analysis.

## GENERAL FUND REVENUE- AND EXPENDITURE-ESTIMATING ASSUMPTIONS

This Analysis considers only discretionary General Fund revenues that will be generated by the Project. Offsetting revenues, which are General Fund revenues dedicated to offset the costs of specific General Fund department functions, are excluded from this Analysis. Departmental costs that are funded by offsetting revenues that are not affected by development are also excluded from this Analysis. Appendix Tables A-3 and A-4 show the revenue-estimating factors on a per person served and case study bases and includes the offsetting revenues from the Analysis as shown in Appendix

Table A-1. Appendix Table A-4 shows the expenditure-estimating procedures on a per person served basis, and also includes the offsetting revenues.

## DEVELOPMENT AND ANALYTICAL ASSUMPTIONS

The results of this Analysis are based on the following assumptions. Below is a brief summary of the land use and other development-related assumptions:

- **Residential Population Estimates** — Population projections are calculated using average persons-per-household factors. The Analysis uses a factor of 2.9 persons-per-household for the high-density multi-family units and 2.0 for the Senior Units.
- **Employee Estimates** — Employee estimates are calculated using average square feet-per-employee and vacancy rates based on existing real estate market data. The Analysis uses 300 SF per employee for General Office, 550 SF per employee for Ground floor Retail and Hotel, and 1,100 SF per employee for the Hotel community space.
- **Residential and Nonresidential Assessed Value** — The estimated assessed valuation per square foot of residential and nonresidential development is based on information provided by the Property Owner and comparable market data. See Westport State Density Bonus Justification document for pro forma analysis deriving the residential unit values.
- **Persons-Served Methodology** — In estimating service demands of the Project and the City, ADE uses a factor of 0.5 resident-equivalents per employee to approximate the service **demands of an employee in the Project's nonresidential land uses compared to a Project resident**. The total Persons Served is calculated as the sum of the total population plus half of the total employees in the City.
- **Income and Retail Expenditure of Households** — The average household income of each residential land use category in the Project was estimated to forecast household retail expenditures. Estimated household incomes reflect typical income levels that would be expected for households to rent these homes under typical affordability guidelines.

## REVENUE-ESTIMATING METHODOLOGY

ADE used either a case-study approach or a per person served approach to estimate property tax, sales tax and transient occupancy revenues. The case-study approach simulates actual revenue generation resulting from new development. The case-study approach for estimating sales and use tax **revenues, for instance, forecasts market demand and taxable spending from the Project's new residents, as well as taxable sales generated by the Project's on-site retail**. Case studies used in this Analysis are discussed in greater detail later in this section.

The average-revenue approach uses the City's FY 2017-2018 budgeted revenue amounts on a citywide per capita or per persons served basis to forecast revenues derived from estimated residents of the Project.

## PROPERTY TAX

Estimated annual property tax revenue resulting from development in the Project is based on residential assessed values calculated from pro forma analysis of the anticipated rental rates and development costs as provided by the Property Owner. The non-residential assessed value are based on current market levels. **To be consistent with the City's budget data, the estimated assessed values** for Project land use are presented in constant 2017-dollar values—real growth in assessed value is not estimated.

The Project site is located in the following Tax Rate Areas (TRAs):

- APN 326-27-041 (TRA 001-178) – Assessed Value \$3,088,471
- APN 326-27-040 (TRA 001-178) – Assessed Value \$3,636,656
- APN 326-27-039 (TRA 001-178) – Assessed Value \$17,459,21

The share of property taxes available for the City General Fund from the County is approximately 5.8 percent of the 1 percent Property Tax allocation, while the County receives 34.5 percent and 8.6 percent that is allocated to the Educational Revenue Augmentation Fund (ERAF). In addition, the City receives Property Tax In Lieu of Vehicle License Fee (PTIL VLF), which are calculated from the increase in assessed value for the project. The analysis also calculates the property tax that goes to the Cupertino Unified School District and the Fremont Unified High School District, which receive 24.8 and 16.7 percent of the base property tax, respectively.

## SALES TAX

Sales tax revenues are based on taxable sales generated within the City, of which the City receives one percent. The Analysis uses two methodologies to estimate taxable sales generated by the Project:

### Retail Sales based on Project Households' Retail Expenditures

The Analysis estimates retail expenditures of future residents in the Project by type of retail category and the portion of expenditures that **would be captured in the City (e.g., generate sales in the City's retail establishments)**. The amounts and types of expenditures made by residents generally depend on their household income. Data for this Analysis is based on estimated Project resident incomes, household spending patterns, and retail demand and supply market conditions in the City.

Specifically, the Analysis evaluates retail expenditures of future residents by the following:

- Estimating the total income of new households based on the projected rent levels provided by the Property Owner, assuming 30 percent of income goes to housing costs. Evaluating Consumer Expenditure Survey (CES) data from the Bureau of Labor Statistics, which reports the proportion of income spent on various household goods and services by income group.
- Translating BLS data on household expenditures into retail stores.

According to the Property Owner, all of the residential units will be rental apartments at Project build out. The Analysis estimates the impact for the **apartment rental scenario, and assumes the City's** estimated average asking rent for residential rental apartments is \$4.15 per SF for Alternative 1 and \$4.25 per SF for Alternative 2. The average unit size would be 850 SF for Alternative 1 and 780 SF for Alternative 2. Based on the average annual rental price, ADE estimated that future household incomes would average \$141,000 for high density multi-family apartment units in Alternative 1 and \$133,000 in Alternative 2. Incomes for the BMR units are set by City policy at \$67,800 for Low Income units and \$47,800 for Very Low Income units, under both Alternatives. This Analysis assumes that the City would capture **65 percent of the Project's** retail demand.

### Retail Sales Based on Project Employees' Retail Expenditures

Research indicates that spending by workers in the vicinity of their place of work is significant. Given the amount of Project employment expected at build out from office and hotel development, this Analysis estimated the additional demand for retail that would be created by Project employees. First, **the analysis estimates the proportions of workers expected to be the Project's residents versus non-residents.** Spending attributable to employees who are Project residents is discounted. ADE assumes that such workers would still make a significant amount of their household spending in the Project regardless of their place of work. Spending by workers from the City who do not reside in the Project is also estimated, **since such spending is assumed to occur in the City as a direct result of the workers'** employment at the Project. The Analysis conservatively assumes an average daily expenditure of \$10 per workday per worker for 240 workdays annually, and that 50 percent of these sales occur in Cupertino.

### Retail Space Direct Sales

In addition to retail sales in the City that will be generated by expenditures of Project households and employees, the Project proposes 42,000 SF of ground floor retail which will directly generate additional retail sales in the City. Retail stores typically generate \$350 in taxable sales per sq. ft. In order to avoid double counting, the analysis nets out sales tax generated by the residential households and onsite employees from the onsite retail space.

### TRANSIENT OCCUPANCY TAX

This Analysis uses a case-study methodology to estimate transient-occupancy tax (TOT) revenue generated by the Project. TOT revenue is estimated based on the number of hotel rooms, at an annual occupancy rate of **65 percent, an average daily room rate of \$200, and the City's TOT rate of 12** percent.

### OTHER REVENUES AND COSTS

The Analysis uses a per person served methodology to estimate other revenue as well as costs generated by the Project. The service population is estimated based on the number of residents, in addition to half of the employee population in the proposed project development. ADE estimated the per capita weighted average of 74.7 percent is generated in the residential uses, and the remaining in non-residential uses. Per capita revenue factors are shown in Appendix Tables A-3 and A-4.

Expenditure estimates are **based on the adjusted City's FY 2017–18** proposed operating budget and supplemental information from the **City's public available information**. All City General Fund expenditure items and expenditure-estimating procedures are listed in Appendix Table A-5. ADE followed the methodology outlined by Economic and Planning Systems for adjusting fixed City costs out of the per capita estimating factors.<sup>1</sup>

ADE uses a percentage factor of total net General Fund costs to calculate the percentage cost allocation for each land use. Appendix Table A-5 shows General Government cost is 2.88 percent of total General Fund Expenditure. The general fund expenditure allocation for each residential and nonresidential development uses this percentage to determine the total project build out revenue.

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<sup>1</sup> EPS, The Oaks Economic and Fiscal Review, January 21, 2016.



# FISCAL IMPACT RESULTS

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The detailed fiscal calculations for each Alternative are provided in this chapter. Both Alternatives generate a positive fiscal impact for Cupertino. Alternative 2 creates a higher net surplus revenue due mainly to the hotel development.

## ALTERNATIVE 1: RESIDENTIAL MIXED USE

Alternative 1 generates annual City revenues of about \$1 million and annual costs of about \$691,500, creating an annual net revenue surplus of \$320,900, as shown in Table 1-1.

TABLE 1-1 ALTERNATIVE 1 FISCAL IMPACT SUMMARY AT BUILD OUT (2017\$)	
Total Project Revenues at Build Out	\$1,012,358
Total Project Expenditures at Build Out	\$691,499
Net Impact	\$320,859

*Source: City of Cupertino FY 2017/2018 Proposed Operating Budget;  
KT Urban, ADE, Inc.*

Table 1-2 shows the detailed estimates of revenues and costs associated with the project and each individual land use. As noted in the methodology chapter, sales tax generated onsite in the retail space has been reduced by the amount of retail spending from residential uses and employees to avoid any possible double counting.

The remaining tables detail the population and employment for the Alternative, the assessed value and property tax calculations and sales tax calculations.

TABLE 1-2 ALTERNATIVE 1 DETAILED FISCAL IMPACT AT BUILD OUT (2017\$)					
GENERAL FUND BUDGET CATEGORY	% OF TOTAL	ANNUAL FISCAL IMPACT AT BUILD OUT	MULTI-FAMILY RESIDENTIAL	RETAIL	THEATER
Annual Revenue					
Sales Tax	14.61%	\$147,916	\$139,760	\$7,856	\$300
Property Tax	38.79%	\$392,742	\$364,494	\$23,436	\$4,813
Transient Occupancy	0.00%	\$0	\$0	\$0	\$0
Utility Tax	6.36%	\$64,347	\$63,319	\$775	\$254
Franchise Fees	6.04%	\$61,130	\$60,153	\$736	\$241
Other Taxes	5.66%	\$57,309	\$56,393	\$690	\$226
Licenses & Permits	4.26%	\$43,133	\$42,444	\$519	\$170
Use of Money and Property	3.27%	\$33,135	\$32,605	\$399	\$131
Intergovernmental	0.96%	\$9,733	\$9,577	\$117	\$38
Charges for Services	14.01%	\$141,863	\$139,596	\$1,708	\$559
Fines & Forfeitures	1.19%	\$12,065	\$11,872	\$145	\$48
Miscellaneous	0.87%	\$8,767	\$8,626	\$106	\$35
Transfer-In	3.97%	\$40,217	\$39,574	\$484	\$159
Total General Fund Revenue	100.00 %	\$1,012,358	\$968,414	\$36,972	\$6,972
Annual Expenditure	-				
General Government	2.80%	\$19,387	\$19,320	\$51	\$17
Police	25.93%	\$179,273	\$178,370	\$680	\$223
Public Affairs	0.00%	\$0	\$0	\$0	\$0
Recreation and Community Services	30.02%	\$207,580	\$207,580	\$0	\$0
Planning and Community Development	11.24%	\$77,753	\$77,362	\$295	\$97
Public Works	30.01%	\$207,506	\$206,461	\$787	\$258
Non-Departmental and Transfers	0.00%	\$0	\$0	\$0	\$0
Total General Fund Expenditure	100.00 %	\$691,499	\$689,093	\$1,813	\$593
ANNUAL GF SURPLUS/(DEFICIT)		\$320,859	\$279,322	\$35,159	\$6,378

Source: ADE, Inc.

TABLE 1-3 ALTERNATIVE 1 RESIDENTIAL AND EMPLOYEE POPULATION AT BUILD OUT				
LAND USE	PER UNIT/SQ. FT.	BUILD OUT		
		RESIDENTS	EMPLOYEES	PERSONS SERVED
Residential Population				-
Market Rate	2.9	1,560	-	1,560
Low Income BMR	2	98		98
Very Low Income BMR	2.0	36		36
Total Residential Population		1,694		1,694
Employee Population	<i>Sq. Ft./Employee</i>			-
Retail	500	-	76	38
Theater	27,500	-	25	23
Total Employee Population			101	51
Total Residential and Employee Population		1,694	101	1,745
Total Persons Served				1,745

Source: KT Urban, C2K Architecture, Inc., ADE, Inc., May 2017.

TABLE 1-4 ALTERNATIVE 1 ESTIMATED ANNUAL PROPERTY TAX REVENUES (2017\$)		
ITEM	ASSUMPTION	ANNUAL FISCAL IMPACT AT BUILD OUT
Property Tax (1% of Assessed Value)		
Residential Build Out Assessed Value (2015\$)	Table 1-5	\$391,928,334
Non-Residential Buildout Assessed Value (2017\$)	Table 1-5	\$38,950,000
Total Assessed Value		\$430,878,334
Property Tax Revenue (1% of Assessed Value)	1.00%	\$4,308,783
Property Tax in Lieu of VLF (.00035% of AV)	0.00035%	\$150,508
Estimated Property Tax Allocation		
City of Cupertino (Post-ERAF)	5.80%	\$249,909
Cupertino Unified School District	24.80%	\$1,068,578
Fremont Unified High School District	16.70%	\$719,567

Source: ADE, Inc.

TABLE 1-5 ALTERNATIVE 1 ASSESSED VALUE ESTIMATES (2017\$)				
LAND USE	ESTIMATED ASSESSED VALUE PER SF [1]	ESTIMATED ASSESSED VALUE PER UNIT	LAND USE	ESTIMATED TOTAL ASSESSED VALUE [1]
ALTERNATIVE 2	PER SQ. FT.	PER DWELLING UNIT		TOTAL AV
Residential			TOTAL UNITS	
Market Rate Residential Rental Apartments (HDR)	\$821	\$698,259	538	\$375,663,342
Low Income BMR Units	\$300	\$255,558	49	\$12,522,342
Very Low Income BMR Units	\$244	\$207,925	18	\$3,742,650
Total			270	\$391,928,334
NONRESIDENTIAL	PER SQ. FT.		BLDG. SQ. FT.	TOTAL AV
Retail	\$600		42,000	\$25,200,000
Theater	\$500		27,500	\$13,750,000
Total			466,350	\$38,950,000

Source: KT Urban, C2K Architecture, Inc., ADE.

TABLE 1-6 ALTERNATIVE 1 AVERAGE INCOME AND ANNUAL TAXABLE RETAIL EXPENDITURES FOR RESIDENTIAL UNITS (2017\$)				
Item	Household Income and Retail Expenditures			Average Retail Expenditure Per Household
	Annual Rent Payments	Estimated Household Income	Taxable Expenditure as % of Income	
<b>Residential For-Rent Scenario</b>				
<b>Unit Type</b>	<b>Per Unit</b>	<b>Per Unit</b>	<b>Per Unit</b>	<b>Per Unit</b>
Market Rate Residential Rental Apartments (HDR)	\$42,330	\$141,000	26.3%	\$37,100
Low Income BMR Units	\$15,516	\$67,800	36.9%	\$25,000
Very Low Income BMR Units	\$12,624	\$47,800	36.9%	\$17,600
<b>Tax Calculation</b>				
Estimated Annual Residential Retail Expenditure				\$21,501,600
Estimated Retail Capture within the City				65.0%
<b>Total Annual Residential Retail Expenditure</b>				\$13,976,040
<b>Sales Tax</b>			<b>1.0%</b>	\$139,760

Source: ADE, Inc.

TABLE 1-7 ALTERNATIVE 1 NON-RESIDENTIAL ANNUAL SALES TAX (2017\$)			
Item	Bldg. Sq. Ft. and Employees	Assumption	Annual Revenue at Buildout
<b>Annual Taxable Sales per Square Foot [1]</b>			
Retail/Commercial	42,000	\$350	\$14,700,000
<b>Sales Tax</b>		1.0%	<b>\$147,000</b>
<b>Annual Taxable Sales from New Employees</b>			
<b>New Employees</b>			
<b>Non Residential Development (Employee)</b>			
Retail	76		\$91,636
Theater	25		\$30,000
<b>Total Employees</b>	<b>101</b>		
Average Daily Taxable Sales per New Employee		\$10	
Work Days per Year		240	
Taxable Sales from New Employees		100.0%	
Estimated Retail Capture Rate within City of Cupertino		50.0%	
<b>Total Taxable Sales from New Employees</b>			\$121,636
<b>Sales Tax</b>		1.0%	\$9,366

Source: U.S. Census Bureau, ULI; Loopnet; KT Urban, C2K Architecture, Inc., ADE.



## ALTERNATIVE 2: GATEWAY MIXED USE

Alternative 1 generates annual City revenues of about \$1.6 million and annual costs of about \$333,400, creating an annual net revenue surplus of \$1,320,400, as shown in Table 2-1.

TABLE 2-1 ALTERNATIVE 2 FISCAL IMPACT SUMMARY AT BUILD OUT (2017\$)	
Total Project Revenues at Build Out	\$1,653,904
Total Project Expenditures at Build Out	\$333,438
Net Impact	\$1,320,466

*Source: City of Cupertino FY 2017/2018 Proposed Operating Budget;  
KT Urban, ADE, Inc.*

Table 2-2 shows the detailed estimates of revenues and costs associated with the project and each individual land use. As noted in the methodology chapter, sales tax generated onsite in the retail space has been reduced by the amount of retail spending from residential uses and employees to avoid any possible double counting.

Most of the net revenue for this Alternative is generated by the Hotel.

The remaining tables detail the population and employment for the Alternative, the assessed value and property tax calculations, sales tax calculations and transient occupancy tax from the hotel.

TABLE 2-2  
ALTERNATIVE 2 ESTIMATED SUMMARY FISCAL IMPACT AT BUILD OUT (2017\$)

ITEM	% OF TOTAL	ANNUAL FISCAL IMPACT AT BUILD OUT	MULTI-FAMILY RESIDENTIAL	OFFICE	RETAIL	HOSPITALITY
Annual Revenue						
Sales Tax	8.94%	\$147,916	\$57,959	\$5,600	\$81,208	\$2,849
Property Tax	14.92%	\$246,818	\$92,900	\$97,440	\$14,616	\$41,862
Transient Occupancy	58.53%	\$967,980	\$0	\$0	\$0	\$967,980
Utility Tax	2.40%	\$39,723	\$27,069	\$9,470	\$775	\$2,409
Franchise Fees	2.28%	\$37,737	\$25,716	\$8,996	\$736	\$2,289
Other Taxes	2.14%	\$35,378	\$24,109	\$8,434	\$690	\$2,146
Licenses & Permits	1.61%	\$26,627	\$18,145	\$6,348	\$519	\$1,615
Use of Money and Property	1.24%	\$20,455	\$13,939	\$4,876	\$399	\$1,241
Intergovernmental	0.36%	\$6,008	\$4,094	\$1,432	\$117	\$364
Charges for Services	5.30%	\$87,575	\$59,679	\$20,877	\$1,708	\$5,311
Fines & Forfeitures	0.45%	\$7,448	\$5,076	\$1,776	\$145	\$452
Miscellaneous	0.33%	\$5,412	\$3,688	\$1,290	\$106	\$328
Transfer-In	1.50%	\$24,827	\$16,918	\$5,918	\$484	\$1,506
Total General Fund Revenue	100.00 %	\$1,653,904	\$349,292	\$172,457	\$101,803	\$1,030,352
Annual Expenditure	-					
General Government	2.80%	\$9,349	\$8,518	\$621	\$51	\$158
Police	26.92%	\$89,751	\$78,646	\$8,311	\$680	\$2,114
Public Affairs	0.00%	\$0	\$0	\$0	\$0	\$0
Recreation and Community Services	27.45%	\$91,525	\$91,525	\$0	\$0	\$0
Planning and Community Development	11.67%	\$38,926	\$34,110	\$3,605	\$295	\$917
Public Works	31.16%	\$103,886	\$91,032	\$9,620	\$787	\$2,447
Non-Departmental and Transfers	0.00%	\$0	\$0	\$0	\$0	\$0
Total General Fund Expenditure	100.00 %	\$333,438	\$303,832	\$22,156	\$1,813	\$5,637
ANNUAL GF SURPLUS/(DEFICIT)		\$1,320,466	\$45,460	\$150,301	\$99,990	\$1,024,715

Source: City of Cupertino FY 2017/2018 Proposed Operating Budget; KT Urban; ADE, Inc.

TABLE 2-3 ALTERNATIVE 2 RESIDENTIAL AND EMPLOYEE POPULATION AT BUILD OUT				
LAND USE	PER UNIT/SQ. FT.	BUILD OUT		
		RESIDENTS	EMPLOYEES	PERSONS SERVED
Residential Population				-
Market Rate	2.9	667	-	667
Low Income BMR	2	44		44
Very Low Income BMR	2.0	36		36
Total Residential Population		747		747
Employee Population	Sq. Ft./Employee			-
Office	300	-	933	467
Retail (Ground floor)	500	-	76	38
Hotel	500	-	212	106
Theater [4]	27,500	-	25	23
Total Employee Population			1,247	624
Total Residential and Employee Population		747	1,247	1,371
Total Persons Served				1,371

Source: KT Urban, C2K Architecture, Inc., ADE, Inc., May 2017.

TABLE 2-4 ALTERNATIVE 2 ESTIMATED ANNUAL PROPERTY TAX REVENUES (2017\$)		
ITEM	ASSUMPTION	ANNUAL FISCAL IMPACT AT BUILD OUT
Property Tax (1% of Assessed Value)		
Residential Build Out Assessed Value (2015\$)	Table 2-5	\$160,172,476
Non-Residential Buildout Assessed Value (2017\$)	Table 2-5	\$265,375,000
Total Assessed Value		\$425,547,476
Property Tax Revenue (1% of Assessed Value)	1.00%	\$4,255,475
Property Tax in Lieu of VLF (.00035% of AV)	0.00035%	\$144,130
Estimated Property Tax Allocation [2]		
City of Cupertino (Post-ERAF) [3]	5.80%	\$246,818
Cupertino Unified School District	24.80%	\$1,055,358
Fremont Unified High School District	16.70%	\$710,664

Source: ADE, Inc.

TABLE 2-5 ALTERNATIVE 2 ASSESSED VALUE ESTIMATES (2017\$)				
LAND USE	ESTIMATED ASSESSED VALUE PER SF [1]	ESTIMATED ASSESSED VALUE PER UNIT	LAND USE	ESTIMATED TOTAL ASSESSED VALUE [1]
ALTERNATIVE 2	PER SQ. FT.	PER DWELLING UNIT		TOTAL AV
Residential			TOTAL UNITS	
Market Rate Residential Rental Apartments (HDR)	\$771	\$655,685	230	\$150,807,550
Low Income BMR Units	\$327	\$255,558	22	\$5,622,276
Very Low Income BMR Units	\$266	\$207,925	18	\$3,742,650
Total			270	\$160,172,476
NONRESIDENTIAL	PER SQ. FT.		BLDG. SQ. FT.	TOTAL AV
Office	\$600		280,000	\$168,000,000
Retail	\$600		42,000	\$25,200,000
Hotel	\$500		116,850	\$58,425,000
Community/Conference Center	\$500		27,500	\$13,750,000
Total			466,350	\$265,375,000

Source: KT Urban, C2K Architecture, Inc., ADE.

TABLE 2-6 AVERAGE INCOME AND ANNUAL TAXABLE RETAIL EXPENDITURES FOR RESIDENTIAL UNITS (2017\$)				
Item	Household Income and Retail Expenditures			Average Retail Expenditure Per Household
	Annual Rent Payments [2]	Estimated Household Income [3]	Taxable Expenditure as % of Income [4]	
Residential For-Rent Scenario				
Unit Type	Per Unit	Per Unit	Per Unit	Per Unit
Market Rate Residential Rental Apartments (HDR)	\$39,809	\$133,000	26.3%	\$35,000
Low Income BMR Units	\$15,516	\$67,800	36.9%	\$25,000
Very Low Income BMR Units	\$12,624	\$47,800	36.9%	\$17,600
Average Residential Retail Expenditure	-	-	-	
Estimated Annual Residential Retail Expenditure				\$8,916,800
Estimated Retail Capture within the City [5]				65.0%
Total Annual Residential Retail Expenditure				\$5,795,920
Sales Tax			1.0%	\$57,959

Source: ADE, Inc.

TABLE 2-7

NON-RESIDENTIAL ANNUAL SALES TAX (2017\$)			
Item	Bldg. Sq. Ft. and Employees	Assumption	Annual Revenue at Buildout
Annual Taxable Sales per Square Foot [1]			
Retail/Commercial	42,000	\$350	\$14,700,000
Sales Tax		1.0%	\$147,000
Annual Taxable Sales from New Employees			
New Employees			
Non Residential Development (Employee)			
Office	467		\$560,000
Retail	76		\$91,636
Hotel	212		\$254,945
Theater	25		\$30,000
Total Employees	780		
Average Daily Taxable Sales per New Employee		\$10	
Work Days per Year		240	
Taxable Sales from New Employees		100.0%	
Estimated Retail Capture Rate within City of Cupertino		50.0%	
Total Taxable Sales from New Employees			\$936,582
Sales Tax		1.00%	\$9,366

Source: U.S. Census Bureau, ULI; Loopnet; KT Urban, C2K Architecture, Inc., ADE.



TABLE 2-8 ESTIMATED ANNUAL TRANSIENT OCCUPANCY TAX REVENUES (2017\$)	
ITEM	ANNUAL FISCAL IMPACT
Hotel Rooms [1]	170
Annual Rooms Available	62,050
Occupancy Rate [2]	40,333
Average Daily Room Rate [3]	\$200
Estimated Annual Hotel Revenues	\$8,066,500
Annual Transient Occupancy Tax (TOT) [4]	\$967,980

Source: KT Urban, ADE, Inc.

[1] Hotel room numbers provided by KT Urban.

[2] Assumptions based on recent hotel trends at 65%: ADE.

[3] Average daily room rate provided by ADE, assume \$200.

[4] Annual TOT rate at 12% provided by City of Cupertino.

# APPENDIX: CITY BUDGET AND PER CAPITA COST/REVENUE FACTORS

APPENDIX A-1 CITY OF CUPERTINO PROPOSED BUDGET FY 2017-18				
REVENUE AND EXPENDITURE ITEMS	CITY OF CUPERTINO	ADJUSTMENT [2]	ADJUSTED BUDGET	% OF TOTAL ADJUSTED BUDGET
	ADOPTED BUDGET FY 2014/15	LESS OFFSETTING ONE-TIME CIP AND STAFF SALARY EXPENSES	NET ANNUAL GENERAL FUND REVENUE AND EXPENSES	
GENERAL FUND BY DEPARTMENT				
Annual Revenue By Department				
Sales Tax	\$22,790,000	\$0	\$22,790,000	30.9%
Property Tax in-Lieu	\$7,472,520	\$0	\$7,472,520	10.1%
Other Property Tax	\$13,284,480	\$0	\$13,284,480	18.0%
Transient Occupancy	\$6,708,000	\$0	\$6,708,000	9.1%
Utility Tax	\$3,200,000	\$0	\$3,200,000	4.3%
Franchise Fees	\$3,040,000	\$0	\$3,040,000	4.1%
Other Taxes	\$2,850,000	\$0	\$2,850,000	3.9%
Licenses & Permits	\$2,145,000	\$0	\$2,145,000	2.9%
Use of Money and Property	\$1,647,790	\$0	\$1,647,790	2.2%
Intergovernmental	\$484,000	\$0	\$484,000	0.7%
Charges for Services	\$13,337,897	\$6,283,029	\$7,054,868	9.6%
Fines & Forfeitures	\$600,000	\$0	\$600,000	0.8%
Miscellaneous	\$435,960	\$0	\$435,960	0.6%
Transfer-In	\$2,000,000	\$0	\$2,000,000	2.7%
Total General Fund Revenue	\$79,995,647	\$6,283,029	\$73,712,618	100.0%
Annual Expenditure By Depart. [1]				
General Government	\$10,386,318	\$9,347,686	\$1,038,632	2.8%
Police	\$12,344,307	\$1,234,431	\$11,109,876	30.0%
Public Affairs	\$72,435	\$72,435	\$0	0.0%
Recreation and Community Services	\$9,624,971	\$2,406,243	\$7,218,728	19.5%
Planning and Community Develop.	\$9,637,008	\$4,818,504	\$4,818,504	13.0%
Public Works	\$17,146,060	\$4,286,515	\$12,859,545	34.7%
Non-Departmental and Transfers	\$15,767,734	\$15,767,734	\$0	0.0%
Total Annual General Fund Expenditures	\$74,978,833	\$37,933,548	\$37,045,285	100.0%

Source: City of Cupertino FY 2017/2018 Proposed Operating Budget; ADE, Inc.

[1] Adjustments to operating expenditures reflect estimates of fixed vs. variable costs per EPS, The Oaks Economic and Fiscal Review, January 21, 2016.

APPENDIX A-2 TOTAL RESIDENTIAL AND EMPLOYEE POPULATION	
ITEM	ASSUMPTION
General Assumptions	
Base Fiscal Year [1]	FY 2017-2018
General Demographic Characteristics	
City of Cupertino	
Population [2]	58,917
Employees (2014) [3]	39,864
City of Cupertino Persons Served [4]	78,849
City of Cupertino Visitors	-
Percent per Capita Weight for Residential	74.72%
Inflationary/Appreciation Factors	
Property Tax	2.0%
Other Revenue	3.0%
Costs	3.0%
Estimated Citywide Assessed Value [5]	\$21,350,000,000

Source: California Department of Finance; California Employment Development Department; ADE, Inc.

[1] Reflects the City of Cupertino Fiscal Year 2017-2018 proposed budget. Revenues and expenditures are in 2017 dollars. This analysis does not reflect changes in values resulting from inflation or appreciation.

[2] Based on population estimates from the California Department of Finance (DOF) data for January 1, 2017.

[3] Based on 2014 US Census obtained from [Onthemap.ces.census.gov](http://Onthemap.ces.census.gov) and adjusted by additional 10% to account for self-employed workers.

[4] Defined as total population plus half of total employees.

[5] Total citywide FY2016-2017 assessed value based on Financial Report from County of Santa Clara.

APPENDIX A-3 RESIDENTIAL UNIT REVENUE ASSUMPTIONS (2017\$)			
REVENUE ITEMS	ADJUSTMENT FACTORS [5]	PER PERSONS SERVED UNIT MULTIPLIER	ESTIMATING PROCEDURE/ DESCRIPTION
Utility Tax	74.72%	\$40.58	Per Persons Served
Franchise Fees	74.72%	\$38.55	Per Persons Served
Other Taxes	74.72%	\$36.15	Per Persons Served
Licenses & Permits	74.72%	\$27.20	Per Persons Served
Use of Money and Property	74.72%	\$20.90	Per Persons Served
Intergovernmental	74.72%	\$6.14	Per Persons Served
Charges for Services	74.72%	\$89.47	Per Persons Served
Fines & Forfeitures	74.72%	\$7.61	Per Persons Served
Miscellaneous	74.72%	\$5.53	Per Persons Served
Transfer-In	74.72%	\$25.36	Per Persons Served

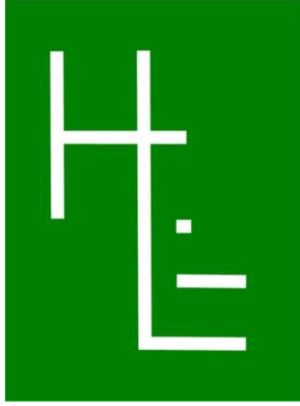
Source: ADE based on data in Tables A-1 and A-2.

APPENDIX A-4 NON-RESIDENTIAL UNIT REVENUE ASSUMPTIONS (2015\$)			
REVENUE ITEMS	ADJUSTMENT FACTORS [5]	PER EMPLOYEE UNIT/CASE STUDY MULTIPLIER	ESTIMATING PROCEDURE/ DESCRIPTION
Utility Tax	25.28%	\$20.29	Per Person Served
Franchise Fees	25.28%	\$19.28	Per Person Served
Other Taxes	25.28%	\$18.07	Per Person Served
Licenses & Permits	25.28%	\$13.60	Per Person Served
Use of Money and Property	25.28%	\$10.45	Per Person Served
Intergovernmental	25.28%	\$3.07	Per Person Served
Charges for Services	25.28%	\$44.74	Per Person Served
Fines & Forfeitures	25.28%	\$3.80	Per Person Served
Miscellaneous	25.28%	\$2.76	Per Person Served
Transfer-In	25.28%	\$12.68	Per Person Served

Source: ADE based on data in Tables A-1 and A-2.

APPENDIX A-5					
ANNUAL RESIDENTIAL AND NON-RESIDENTIAL UNIT EXPENDITURE ASSUMPTIONS					
EXPENDITURE ITEMS	RESIDENTIAL		NON-RESIDENTIAL		ESTIMATING PROCEDURE/DESCRIPTION
	ADJUSTMENT FACTORS	PER CAPITA UNIT MULTIPLIER	ADJUSTMENT FACTORS	PER CAPITA UNIT MULTIPLIER	
General Government	2.88%	n/a	2.88%	n/a	Case Study
Police	74.72%	\$140.90	25.28%	\$70.45	Per Person Served
Public Affairs	74.72%	\$0.00	25.28%	\$0.00	Per Person Served
Recreation and Community Services	100.00%	\$122.52	0.00%	\$0.00	Per Person Served
Planning and Community Development	74.72%	\$61.11	25.28%	\$30.56	Per Person Served
Public Works	74.72%	\$163.09	25.28%	\$81.55	Per Person Served
Non-Departmental and Transfers	74.72%	\$0.00	25.28%	\$0.00	Per Person Served

Source: ADE based on data in Tables A-1 and A-2.



## MARKET STUDY AND PRODUCT RECOMMENDATION

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# Proposed Westport Cupertino Hotel

21267 STEVENS CREEK BOULEVARD  
CUPERTINO, CALIFORNIA



### SUBMITTED TO:

Mr. Mark Tersini  
KT Urban  
21710 Stevens Creek Blvd., Suite 200  
Cupertino, California 95014  
mtersini@aol.com  
(408) 257-2100

### PREPARED BY:

Jaime Law  
Hospitality Link International, Inc.  
2004 New Brunswick Drive  
San Mateo, California 94402  
jlaw@hospitalitylink.net  
(415) 613-0615



July 24, 2017

Mr. Mark Tersini  
KT Urban  
21710 Stevens Creek Blvd., Suite 200  
Cupertino, California 95014

Re: Proposed Westport Cupertino Hotel  
Cupertino, California

Dear Mr. Tersini:

Pursuant to your request, we herewith submit our market study pertaining to the above-captioned property. We have inspected the real estate and analyzed the hotel market conditions in Cupertino, California and the greater Silicon Valley market area. We have studied the proposed project, and the results of our fieldwork and analyses are presented in this report. We have also reviewed the proposed improvements for this site. Based upon our field research, we provide you with our recommendation regarding the most appropriate lodging product and brand options for your site.

This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

Sincerely,

Hospitality Link International, Inc.

jlaw@hospitalitylink.net, +1 (415) 613-0615

Holden Lim, President  
holdenlim@hospitalitylink.net, +1 (415) 810-0833





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# 1. Executive Summary

## Subject of the Market Study and Product Recommendation

The subject of the study is the proposed hotel component in Westport Cupertino. Westport Cupertino is a mixed-use development that will include a 7-story, 280,000 square feet office building, a 6-story hotel (subject hotel), three 5-story residential buildings containing a total of 270 residential units, a theatre, a transit center, and 3-story, below-grade parking. Westport Cupertino will serve as a vibrant mixed-use gateway district providing affordable and senior housing, extensive community benefits, significant mobility options, and a retail, entertainment, and civic destination for the greater Cupertino community. The developer of the proposed subject hotel is KT Urban, which is based in Cupertino, California.

## RENDERING OF PROJECT



The street address of the subject site is 21267 Stevens Creek Boulevard, Cupertino, California 95014. Some specific businesses in the area include Apple Incorporated, Cisco Systems, Seagate, Target, Whole Foods, Verizon Wireless, Panera Bread, Peet's Coffee, Chase, Alexander's Steakhouse and Bank of America. Hotels in the immediate area

include the Juniper Hotel by Hilton, Aloft Cupertino, and the Cupertino Inn. The Residence Inn Main Street and Hyatt House at the Vallco Center are under construction. Located southwest of the Homestead Road and North Tantau Avenue intersection in Cupertino, Apple Inc., is nearing completion of its new 175-acre “Apple Park” which started construction in late 2013. In April 2017, 12,000 of its employees began moving in. Facilities at Apple Park include a 120,000-square-foot underground assembly space with seating for 1,000, a \$74 million gym facility, a large lobby, restrooms and back-of-the-house facilities including a catering kitchen, and a 350-stall parking structure.

The subject site enjoys a favorable location on a major thoroughfare and is proximate to a number of tech companies (Apple Park is located four miles away from the subject). The site is adjacent to Highway 85, which is a major local access route located in the western portion of Cupertino. Overall, the supportive nature of the development in the immediate area is considered appropriate for and conducive to the operation of a hotel.

#### **Pertinent Dates**

The effective date of the report is July 24, 2017. The subject site was inspected by Jaime Law and Holden Lim on June 8, 2017.

#### **Summary of Economic and Hotel Market Trends**

Silicon Valley benefitted from a diverse and expanding economy after the dot-com bust until the second half of 2007, when the economy started to contract into a severe recession that lasted until early 2010. Positive office space absorption, improving unemployment rates, and favorable hotel demand statistics indicate that the area has experienced an economic rebound since 2010. Silicon Valley strong economic growth in the past three years is supported by expanding company headquarters, strong commercial leasing activity, a surge in airport passenger traffic, and declining unemployment rates. The near-term and long-term outlook for the market is optimistic because of its highly educated labor force and the presence of a healthy and rapidly expanding technology industry.

Some specific businesses in the area include Apple Incorporated, Cisco Systems, Seagate, Target, Whole Foods, Verizon Wireless, Panera Bread, Peet’s Coffee, Chase, Alexander’s Steakhouse and Bank of America. Hotels in the immediate area include the Juniper Hotel by Hilton, Aloft Cupertino, and the Cupertino Inn. The Residence Inn Main Street and Hyatt House at the Vallco Center are under construction. Located southwest of the Homestead Road and North Tantau Avenue intersection in Cupertino, Apple Inc., is nearing completion of its new 175-acre “Apple Park” which started construction in late 2013. In April 2017, 12,000 of its employees began moving in. Facilities at Apple Park include a 120,000-square-foot underground assembly space with seating for 1,000, a \$74 million gym facility, a large lobby, restrooms and back-of-the-house facilities including a catering kitchen, and a 350-stall parking structure.

The subject site enjoys a favorable location on a major thoroughfare and is proximate to a number of tech companies (Apple Park is located four miles away from the subject). The site is adjacent to Highway 85, which is a major local access route located in the western portion of Cupertino. Overall, the supportive nature of the development in the immediate area is considered appropriate for and conducive to the operation of a hotel.

Following the great recession, the county unemployment rate declined to its lowest historical level, at 2.9% in May 2017. This can be attributed to the high concentration of corporate headquarters, technology companies, and various start-up and service businesses in Silicon Valley, which has contributed to the region's economic strength. According to recent publications and development officials, the economy thrives and industries in Silicon Valley are expecting continued job growth.

2016 was a record breaking year for Silicon Valley's airport. According to airport officials, the growth is the direct result of the addition of several new international flights that were added in 2016. Passenger traffic at the San Francisco International Airport represented a new all-time record for passenger traffic with a total of 53.1 million passengers traveling through its facilities. Norman Y. Mineta San Jose International Airport also recorded a new all-time high passenger traffic with a total of 10.8 million passengers.

The Silicon Valley hotel market experienced a notable increase in supply in the past four years, adding 1,334 rooms to the market. Despite the growth in supply, the market has quickly absorbed this supply increase and continued to register high occupancy levels in the 80% range for the past four years. In the year-to-date period through May 2017, occupied room nights continued to grow at robust rates, increasing by 7.3% compared to the same period last year. Market-wide average rate registered a double-digit increase in 2014 and 2015, but began moderating in 2016 and the year-to-date period through May 2017. With sustained levels of peak lodging demand in the market, area hoteliers will continue to evidence the sustained favorable operating performance of the market, with further increases in occupancy and average rate, albeit, at moderate growth rates. Hoteliers in the market reported that the continued increase in average rate is attributed to the growth in mid-week commercial lodging demand from corporate business travelers.

The proposed subject hotel will be constructed and operated to meet the standards of an upscale or upper-upscale hotel. The following table illustrates the market trends for the upscale, upper-upscale, and luxury hotel segments. The hotels in this set are in the upscale, upper-upscale, and luxury hotel segments located in Cupertino, Sunnyvale, Mountain View, Santa Clara, Los Altos, Campbell, San Jose, and Los Gatos.

**FIGURE 1-1 HISTORICAL SUPPLY AND DEMAND TRENDS (STR)**

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Daily Rate	Change	RevPAR	Change
2011	4,098	1,495,831	—	1,114,330	—	74.5 %	\$143.15	—	\$106.64	—
2012	4,095	1,494,830	(0.1) %	1,169,455	4.9 %	78.2	154.54	8.0 %	120.90	13.4 %
2013	4,219	1,539,845	3.0	1,225,558	4.8	79.6	168.99	9.4	134.50	11.2
2014	4,258	1,554,255	0.9	1,250,889	2.1	80.5	189.12	11.9	152.21	13.2
2015	4,985	1,819,646	17.1	1,437,910	15.0	79.0	216.50	14.5	171.08	12.4
2016	5,240	1,912,438	5.1	1,524,952	6.1	79.7	225.30	4.1	179.65	5.0
Average Annual Compounded Change:										
2011-2016			5.0 %		6.5 %			9.5 %		11.0 %
<b><u>Year-to-Date Through May</u></b>										
2016	5,231	789,908	—	614,598	—	77.8 %	\$229.42	—	\$178.51	—
2017	5,473	826,423	4.6 %	659,300	7.3 %	79.8	232.32	1.3 %	185.34	3.8 %



## **Summary Accommodated Demand and Market- wide Occupancy**

From our research, we conclude that the major national hotel brands are widely represented in the market. Some brands are better represented than others, such as Marriott with 25 hotels (including all Starwood hotels prior to the merger); Hilton with 14 hotels (two Hiltons, two DoubleTrees, two Embassy Suites, three Hilton Garden Inns, one Curio Collection, three Hampton Inn, and two Homewood Suites); and Intercontinental, with approximately 8 hotels each ranging from full-service to select-service hotels; Hyatt has a presence with the Hyatt Santa Clara, two Hyatt Houses and a Hyatt Place, while the luxury segment has the least representation: Fairmont and Four Seasons. It is also important to note that independent hotels comprise a large category of non-branded hotels. Hotel Valencia, Toll House, Hotel Los Gatos, and Stanford Park Hotel are among the highest rated independent hotels in the Silicon Valley.

The proposed subject will operate in a dynamic market of exclusive upscale hotels and is expected to command above average rates due to its new condition upon opening. The hotels that will compete directly with the subject hotel are in the upscale, upper-upscale, and luxury segment class.

The tech industry in Silicon Valley supports occupancy levels for many months in excess of 80%. Business travel is strong Monday through Thursday, with many operators reporting sold-out nights on Tuesday and Wednesday. Due to the transient commercial nature of accommodated demand, market-wide occupancy is strong throughout the year from February to October and declines during the holiday months.

Commercial travel is relatively constant throughout the year, although some declines are noticeable in late December and during other holiday periods. Corporate travel in the market is generated by a variety of corporation, including Apple, Google, Cisco, Oracle, Symantec, Agilent, Panasonic, and other local firms. As many of these high-tech companies relocate and expand operations (Apple in Cupertino), demand growth should continue. In the near term, the outlook for commercial demand is positive as technology companies continue to hire, expand office space, and increase travel budgets. The long term outlook is also positive as tech companies establish a strong demand base in the market.

In addition to the opening of Apple Park, the opening of the Hyatt House, Residence Inn Cupertino, and AC Hotel Sunnyvale are expected to induce lodging demand to the market. Furthermore, in 2019, when the remaining high-quality hotel projects in this study start to open its doors, induced demand will more than double its size. The opening of high-quality, upscale properties will add new product that is either affiliated with a strong national chain or uniquely position as an independent property. The Marriott and Hyatt reservation systems and loyalty programs are expected to induce additional demand in all segments, while independent hotels will be uniquely positioned



to cater to sophisticated tech travelers, as well as leisure and meeting and group demand. Accordingly, we have incorporated 21,800 annual room nights into our analysis, which is expected to be absorbed by the new hotels opening in Cupertino, including the subject hotel, and will support healthy occupancy levels.

The following table details our projection of lodging demand growth for the subject market, including the total number of occupied room nights and any residual unaccommodated demand in the market.





**FIGURE 1-2 ACCOMMODATED DEMAND**

	2017	2018	2019	2020	2021	2022	2023
<b>Commercial</b>							
Base Demand	1,201,001	1,225,021	1,237,272	1,262,017	1,274,637	1,274,637	1,274,637
Induced Demand	2,483	6,686	13,162	14,739	14,739	14,739	14,739
Total Demand	1,203,485	1,231,707	1,250,434	1,276,756	1,289,376	1,289,376	1,289,376
Growth Rate	5.2 %	2.3 %	1.5 %	2.1 %	1.0 %	0.0 %	0.0 %
<b>Meeting and Group</b>							
Base Demand	240,200	245,004	247,454	249,929	252,428	252,428	252,428
Induced Demand	497	1,379	4,387	4,479	4,479	4,479	4,479
Total Demand	240,697	246,383	251,842	254,408	256,907	256,907	256,907
Growth Rate	5.2 %	2.4 %	2.2 %	1.0 %	1.0 %	0.0 %	0.0 %
<b>Leisure</b>							
Base Demand	157,083	160,225	161,827	163,446	165,080	165,080	165,080
Induced Demand	331	881	2,527	2,619	2,619	2,619	2,619
Total Demand	157,414	161,106	164,354	166,064	167,699	167,699	167,699
Growth Rate	3.2 %	2.3 %	2.0 %	1.0 %	1.0 %	0.0 %	0.0 %
<b>Totals</b>							
Base Demand	1,598,285	1,630,251	1,646,553	1,675,392	1,692,145	1,692,145	1,692,145
Induced Demand	3,311	8,946	20,076	21,837	21,837	21,837	21,837
Total Demand	1,601,596	1,639,196	1,666,630	1,697,229	1,713,983	1,713,983	1,713,983
<b>Overall Demand Growth</b>	3.2 %	2.5 %	2.9 %	2.3 %	1.0 %	0.0 %	0.0 %
<b>Market Mix</b>							
Commercial	75.1 %	75.1 %	75.0 %	75.2 %	75.2 %	75.2 %	75.2 %
Meeting and Group	15.0	15.0	15.1	15.0	15.0	15.0	15.0
Leisure	9.8	9.8	9.9	9.8	9.8	9.8	9.8
<b>Existing Hotel Supply</b>							
Hyatt House (Vallco) <sup>2</sup>	5,251	5,253	5,272	5,240	5,240	5,240	5,240
Residence Inn Cupertino <sup>3</sup>	57	135	135	135	135	135	135
Kimco Cupertino Village Hotel <sup>4</sup>			54	93	93	93	93
Cupertino Hotel (Goodyear Tires) <sup>5</sup>			26	78	78	78	78
AC Hotel Sunnyvale (T2) <sup>6</sup>		28	47	47	47	47	47
RI Silicon Valley I and II Expansion <sup>7</sup>			24	47	47	47	47
T2 Dual Brand (150 AC and 200 Autograph) <sup>8</sup>				59	88	88	88
Available Rooms per Night	1,937,440	1,980,100	2,090,883	2,184,154	2,194,654	2,194,654	2,194,654
Nights per Year	365	365	365	365	365	365	365
<b>Total Supply</b>	5,308	5,425	5,728	5,984	6,013	6,013	6,013
Rooms Supply Growth	1.3 %	2.2 %	5.6 %	4.5 %	0.5 %	0.0 %	0.0 %
<b>Marketwide Occupancy</b>	<b>81.2 %</b>	<b>81.4 %</b>	<b>79.3 %</b>	<b>77.7 %</b>	<b>78.1 %</b>	<b>78.1 %</b>	<b>78.1 %</b>

<sup>2</sup> Opening in December 2018 of the 75% competitive, 148-room Hyatt House (Vallco)

<sup>3</sup> Opening in August 2017 of the 75% competitive, 180-room Residence Inn Cupertino

<sup>4</sup> Opening in June 2019 of the 50% competitive, 185-room Kimco Cupertino Village Hotel

<sup>5</sup> Opening in September 2019 of the 50% competitive, 156-room Cupertino Hotel (Goodyear Tires)

<sup>6</sup> Opening in June 2018 of the 25% competitive, 187-room AC Hotel Sunnyvale (T2)

<sup>7</sup> Opening in July 2019 of the 25% competitive, 188-room RI Silicon Valley I and II Expansion

<sup>8</sup> Opening in May 2020 of the 25% competitive, 350-room T2 Dual Brand (150 AC and 200 Autograph)



## **Westport Cupertino Complementary Uses**

Westport Cupertino will serve as a vibrant mixed-use gateway district providing affordable and senior housing, extensive community benefits, dynamic office space, significant mobility options, and a retail, entertainment, and civic destination for the greater Cupertino community. Along with the residential users, the office users will provide for great vitality throughout the day. Office users utilize hotel and retail food service amenities in the mixed-use development during the day, while residential users will frequent these establishments throughout the day and evening. Office space is an integral part of a vibrant community, in which complementary uses such as hotel and retail get full utilization by day and night, generating optimal social and economic returns to the community and the city as a whole.

It is important to note, the on-site transit center will provide the basis for a future connection for rapid transit along State Route 85, 50 onsite parking stalls, and a shuttle drop-off/pick-up area, thus removing commuter buses and improving pedestrian and bike safety along Mary Avenue. Rapid Bus 523 will operate along Stevens Creek Boulevard and transport hotel guests to and from the San Jose Convention Center and other regional destinations, enhancing regional connectivity.

Westport Cupertino will offer a modern, functional layout conducive to, and supportive of an upscale hotel operation, a class-A office space leased by a corporate tenant, and upscale residences enhanced with neighborhood amenities. The following section will discuss our recommendations for the hotel component, which takes into account the previously discussed complementary facilities which will enhance the hotel operation.

## **Product Recommendation**

Our research of the hotel market concludes that demand for upscale hotels with high-quality services and amenities exists. The subject location is not ideal for a group hotel (over 200 rooms) due to its distance from the Santa Clara and San Jose convention centers; and according to representatives at the Juniper Hotel (a Curio by Hilton), 90% to 95% of corporate business travels from within a 10-mile radius. Typically, tech-industry guests seeking boutique lifestyle/affordable luxury brands. The weekend guest is visiting from LA, staying for pre- or post-convention events, stopping en route to Napa Valley, or visiting family in area. Because of the high concentration of extended-stay hotels in close proximity to area demand generators along El Camino Real and two under construction in the City of Cupertino, the subject's location is not ideal for an extended-stay hotel. Operators and hotel investors agreed that the subject site has potential for a hotel ranging from 145 to 195 rooms in size that will accommodate mid-week business from local demand generators and weekend visitors. Because food and beverage is typically unprofitable for area hotels and food options abound in the neighborhood and proposed mixed-use development, our product recommendation focuses on boutique lifestyle hotels with a heavy emphasis on beverage service and independent upscale hotels with a leased restaurant operation.



Based upon our field research and our knowledge of area hotels and demand generators, our recommendation regarding the most appropriate lodging product for your site is for a 180-room boutique lifestyle hotel with a focus on beverage, a “B&F” (Beverage & Food) lounge area offering cocktails, beverages and small plates (not three meals a day – evenings only). A boutique lifestyle select brand, commercially oriented hotel that will appeal to tech-industry guests seeking a lifestyle brand, as well as weekend visitors looking for a modern, upscale hotel option near leisure attractions. Our product recommendation includes an open multimedia lobby area with comfortable sofas featuring free Wi-Fi, a healthy crafted small-plate breakfast buffet (paid offering), and a 24-hour market pantry. The meeting space offering should feature a minimum of three medium-sized rooms (combined for a large ballroom) for business, social or family events, and two media scape boardrooms featuring workspace on demand. The guestroom product should at the very least meet upper-upscale standards, with plush bedding, simplistic design with no art work, a workspace, free high-speed Internet access, and high-quality bath amenities. Guestroom bathroom shower stalls with high pressure rain showers instead of tub and shower combination, and suites containing a separate soaking tub. The fitness area should feature a room fully equipped with state-of-the-art equipment. The outdoor areas may feature local fauna landscape and a comfortable seating area with an outdoor fire pit. It is our understanding that five boutique theatres, including a TED-talk style theatre will be located on the underground levels of the hotel. This concept will not only enhance the overall guest travel experience, but also provide an additional neighborhood amenity. A roof-top bar open to hotel guests, as well as local business and community patrons will benefit from the views of the valley. It is our understanding the hotel will be part of an upscale mixed-use development containing retail commercial space and office space, as well as an upscale residential component. The hotel can be complemented by a ground-floor leased restaurant and bar operation within the mixed-use development.

Our brand and facility recommendation considers the following factors:

- The proposed site is in a suburban hotel location with excellent highway and roadway frontage and good visibility/accessibility.
- Existing surrounding uses of the site include multi-family residential, office, and a restaurant.
- The proposed development of the overall site includes multi-family residences, office, condos, and supportive retail uses.
- The shortage of quality upscale boutique lifestyle hotel developments with community space in Cupertino.



- The hotel will be developed by an experienced commercial developer and managed by a reputable, experienced third-party hotel operator under a major national brand affiliation.
- Demand to the overall market is commercial-driven, resulting in strong weekday performance. According to local operators, weekend business can often be challenging, particularly for hotels in more suburban locations such as Sunnyvale/Cupertino. Meeting and group business is driven by the local tech companies and the Santa Clara convention center. Some social meeting and group business is present from weddings, reunions, etc.
- The hotel's design, brand, and operations will be of a caliber that will drive demand to the property. The hotel will have distinctive characteristics and food and beverage offerings that will also be positioned to enhance the overall neighborhood and appeal to the city's residents, as roof-top bars and open lounge/community space options are limited in the immediate neighborhood.
- Given the subject site's suburban highway location and considering the average square footage of comparable properties in the area, micro-units would not be the most optimum size for this market.

Every operator/management company/hotel company has different design and facility visions. While we have recommended a baseline level of hotel facilities, the space program for the subject site would depend on the branding, operator, and developer. Our recommendations, therefore, are general in nature, correlating the overall consistencies among the options that were considered based on the location and likely positioning of the project.

The following table illustrates our product recommendation, including type of product, number and type of rooms, meeting-space square footage, and other required amenities.

**FIGURE 1-3 PROPOSED HOTEL FACILITIES RECOMMENDATION**

Proposed Boutique Lifestyle Select Hotel	Total Number of Rooms	Room Mix				Indoor Meeting Space (SF)	Meeting Space per Room	Total Square Feet
		Standard King	Double Queen	King Suite	Hospitality Suite			
Guestroom Mix	180	110	45	20	5	4,500	25.0	
Units		Description						
Guestrooms	180	Simplistic design; consistent FF&E in all rooms; modern lighting; closet featuring exposed design; work desk; technology package; complimentary WiFi; at least three room type options.						65,700
Meeting Rooms	Up to 5 Rooms	A 4,500 SF divisible, multi-use meeting room, two private boardrooms						4,500
Fitness Room/Pool		Fully equipped fitness room and tempreature-controlled pool						2,100
Business Area		Multimedia lobby area with comfortable sofas featuring free Wi-Fi						200
Lounge and Food and Beverage		"B&F" lounge area offering cocktails, beverages and small plates (not three meals a day – evenings only). Crafted small-plate breakfast buffet (paid offering). Roof-top Bar.						4,500
Public Space and Lobby		Simplistic design with clean aesthetic; distinct tone-on-tone color palate; local connection through museum-quality artifacts; flexible layout; market pantry						32,000
Total Hotel Building Area (Estimate)								109,000
Theater at Hotel		5 boutique theatres including a TED-Talk style theatre						27,500
Parking	215	Underground parking						68,800
Total Building Area with Theatre and Parking (Estimate)								205,300





## Scope of Work

The objective of this study is to perform market research in order to assess hotel market conditions and provide a recommendation for the optimal hotel brand and product for the site. We understand the report will be shared with the City of Cupertino's planning commission and available during public hearings. The methodology used in preparing this study is detailed step by step.

1. All information was collected and analyzed by the staff of Hospitality Link International, Inc. Information was supplied by the client.
2. The subject site has been evaluated from the viewpoint of its physical utility for the future operation of a hotel, as well as access, visibility, and other relevant factors.
3. The subject property's proposed improvements have been reviewed for their expected quality of construction, design, and layout efficiency.
4. The surrounding economic environment, on both an area and neighborhood level, has been reviewed to identify specific hostelry-related economic and demographic trends that may have an impact on future demand for hotels.
5. Dividing the market for hotel accommodations into individual segments defines specific market characteristics for the types of travelers expected to utilize the area's hotels. The factors investigated include purpose of visit, average length of stay, facilities and amenities required, seasonality, daily demand fluctuations, and price sensitivity.
6. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness. Unless noted otherwise, we have inspected the competitive lodging facilities summarized in this report.
7. Based on the data and information gathered during the fieldwork phase, in-house analyses, knowledge of the hospitality industry, area hotel trends, and investor requirements, we performed a supply and demand analysis to determine historical and projected overall market performance.
8. Based upon our field research, knowledge of the hospitality industry, and interviews with investors and city officials, we provided you with our recommendation regarding the most appropriate lodging product and brand options for your site.





## 2. Description of the Site and Neighborhood

The suitability of the land for the operation of a lodging facility is an important consideration affecting the economic viability of a property and its ultimate marketability. Factors such as size, topography, access, visibility, and the availability of utilities have a direct impact on the desirability of a particular site.

The subject property is located in the northeast quadrant formed by Highway 85 and Stevens Creek Boulevard. The street address of the subject site is 21267 Stevens Creek Boulevard, Cupertino, California 95014.

### Physical Characteristics

The subject site for the proposed mixed-use development comprises two parcels of land totaling approximately 8.1 acres, or 352,836 square feet. The parcel's adjacent uses are set forth in the following table.

**FIGURE 2-1    SUBJECT PARCEL'S ADJACENT USES**

Direction	Boundary	Adjacent Uses
North	May Avenue	Residential Units
South	Stevens Creek Blvd.	De Anza College
East	May Avenue	Open Space; Residential Units; Commercial
West	Highway 85	Residential Units and Commercial



## AERIAL VIEW OF SUBJECT SITE



Primary vehicular access to the proposed subject site will be provided by Stevens Creek Boulevard. Access will also be available from Mary Avenue. The topography of the parcel is generally flat, and the site's shape is irregular.

### Site Utility

Upon completion of construction, the subject site will not contain any significant portion of undeveloped land that could be sold, entitled, and developed for alternate use. The site is expected to be fully developed with site or building improvements, which will contribute to the overall profitability of the proposed hotel.

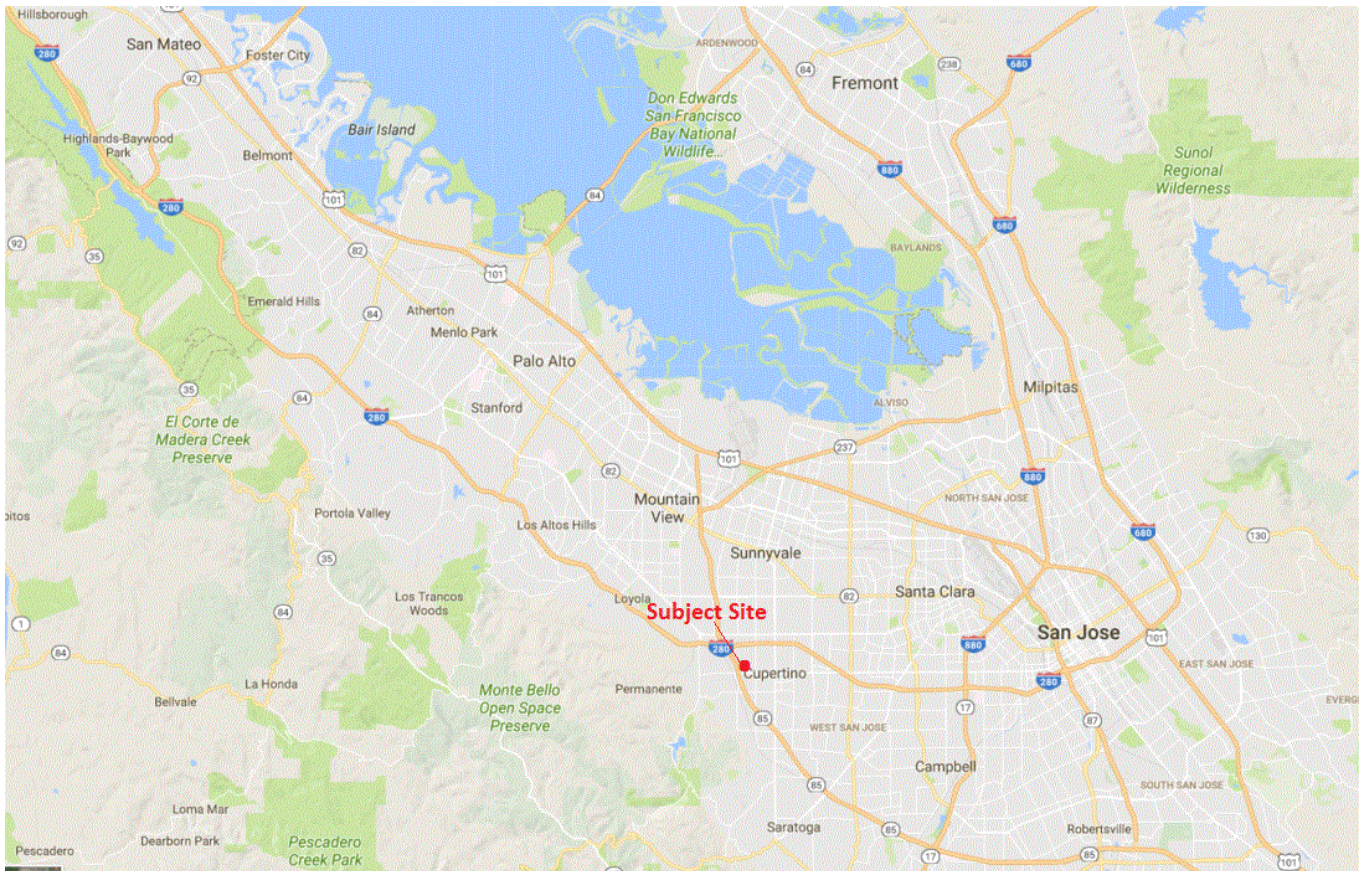
### Access and Visibility

It is important to analyze the site in regard to ease of access with respect to regional and local transportation routes and demand generators. The subject site is readily accessible to a variety of local, county, state, and interstate highways.





## MAP OF REGIONAL ACCESS ROUTES



Primary regional access through the area is provided by north/south Interstate 880, which extends north to Oakland, and Interstate 280, which extends northwest to San Francisco. U.S. Highway 101 is another major highway, providing access to such cities as San Mateo to the north and Salinas to the south. The subject property's market is served by a variety of additional local routes such as Highway 85 and Highway 82, which are illustrated on the map.

From Interstate 280, motorists' merge onto Highway 85 and immediately after, take the Stevens Creek Boulevard exit, making a left turn (going west) onto this thoroughfare for approximately half a block. The subject site will be visible from the motorists' left-hand side; motorists' proceed to making a U-turn on Mary Avenue and immediately access the subject site on the right-hand side. The subject site is located near a busy intersection and benefits from very good visibility from within its local neighborhood



and from Highway 85. Overall, the subject site benefits from excellent accessibility and visibility attributes.

### **Airport Access**

The subject property is served by the Mineta San Jose International Airport, which is located approximately 8 miles to the northeast of the subject site. From the airport, motorists follow signs to Interstate 880 and travel south on this thoroughfare to Interstate 280. Motorists then proceed northbound on Interstate 280 until its intersection with Stevens Creek Boulevard, continuing to the subject property as previously noted. The subject hotel is also served by the San Francisco International Airport, which is located approximately 31 miles to the northwest of the subject site.

### **Neighborhood**

The neighborhood surrounding a lodging facility often has an impact on a hotel's status, image, class, style of operation, and sometimes its ability to attract and properly serve a particular market segment. This section of the report investigates the subject property's neighborhood and evaluates any pertinent location factors that could affect its occupancy, average rate, and overall profitability.

The subject neighborhood is generally defined by Interstate 280 to the north, Highway 85 to the west, Stevens Creek Boulevard to the south, and Lawrence Expressway to the east. The neighborhood is characterized by residences, restaurants, office buildings, supermarkets, gas stations, and retail shopping centers that contain nationally recognized chain stores. Within the immediate proximity of the site, land use is primarily residential and commercial in nature.

Some specific businesses in the area include Apple Incorporated, Cisco Systems, Seagate, Target, Whole Foods, Verizon Wireless, Panera Bread, Peet's Coffee, Chase, Alexander's Steakhouse and Bank of America. Hotels in the immediate area include the Juniper Hotel by Hilton, Aloft Cupertino, and the Cupertino Inn. The Residence Inn Main Street and Hyatt House at the Vallco Center are under construction. Located southwest of the Homestead Road and North Tantau Avenue intersection in Cupertino, Apple Inc., is nearing completion of its new 175-acre "Apple Park" which started construction in late 2013. In April 2017, 12,000 of its employees began moving in. Facilities at Apple Park include a 120,000-square-foot underground assembly space with seating for 1,000, a \$74 million gym facility, a large lobby, restrooms and back-of-the-house facilities including a catering kitchen, and a 350-stall parking structure.

Overall, the supportive nature of the development in the immediate area is considered appropriate for and conducive to the operation of a hotel.

### **Utilities**

The subject site will reportedly be served by all necessary utilities. We assume that these will be acquired from the most cost-effective providers within the local market.



#### **Soil and Subsoil Conditions**

Geological and soil reports were not provided to us or made available for our review during the preparation of this report. We are not qualified to evaluate soil conditions other than by a visual inspection of the surface; no extraordinary conditions were apparent.

#### **Nuisances and Hazards**

We were not informed of any site-specific nuisances or hazards, and there were no visible signs of toxic ground contaminants at the time of our inspection. Because we are not experts in this field, we do not warrant the absence of hazardous waste and urge the reader to obtain an independent analysis of these factors.

#### **Flood Zone**

According to the Federal Emergency Management Agency, the subject site is located in flood zone X. The flood zone definition for X designation is as follows: Areas of 0.2% annual chance flood with average depths of less than 1 foot or with drainage areas less than 1 square mile; and areas protected by levees from 1% annual chance flood.

#### **Zoning**

According to the local planning office, the subject property is zoned as follows: P (CG, Res) – Planned Development (Commercial and Residential). A planned development zoning district in which the uses are intended to be a mix of general commercial and residential. Under the General Plan Community Vision 2040, and the Heart of the City Specific Plan, This zoning designation allows for most commercial uses, including office complexes, residential units, retail centers, service industries, and hotels.

At the time of this report, KT Urban was seeking a General Plan Amendment for its Westport Cupertino Mixed-Use Development, which includes the following items:

- Land Use Designation of Office / Office Allocation SF: Request to add the revise the land use designation on the project site from Commercial/Residential to Commercial/Office/Residential, and add an Office allocation of 280,000 SF to the project site.
- Increase in Hotel Allocation: Request to increase the hotel allocation of 170 rooms/"keys" to the project site.
- Increase in Building Height: Request to revise from 45'-0" to 88'-0" for tallest buildings on site.
- Variation of the Slope Setback: Request to revise the 1:1 slope setback along Stevens Creek Blvd from 1:1 to 3:1 at the proposed Office Building and 2:1 at the proposed Hotel Building.

An amendment to the Heart of the City Specific Plan was also requested, which includes the following items:



- Side Interior Setback: Request to revise setback at the western property line along Highway 85, specifically at the Transit Center, from 1/2 the building height to 0'-0" setback, and specifically at the Office Building to 10'-0" setback.
- Residential Common Open Space: Request to revise the residential common open space from 150 SF/unit to 80 SF/unit. The landscape common open space will be 70% of the total.

For the purposes of this study, we assume that all necessary permits and approvals will be secured (including an appropriate liquor license if applicable) and that the subject property will be constructed in accordance with local zoning ordinances, building codes, and all other applicable regulations. Our zoning analysis should be verified before any physical changes are made to the site.

#### **Easements and Encroachments**

We are not aware of any easements attached to the property that would significantly affect the utility of the site or marketability of this project.

#### **Conclusion**

We have analyzed the issues of size, topography, access, visibility, and the availability of utilities. The subject site enjoys a favorable location on a major thoroughfare and is proximate to a number of tech companies (Apple Park is located four miles away from the subject). The site is adjacent to Highway 85, which is a major local access route located in the western portion of Cupertino. In general, the site is well suited for hotel use, with excellent access, visibility, and topography for an effective operation.





### 3. Market Area Analysis

The economic vitality of the market area and neighborhood surrounding the subject site is an important consideration in forecasting lodging demand and future income potential. Economic and demographic trends that reflect the amount of visitation provide a basis from which to project lodging demand. The purpose of the market area analysis is to review available economic and demographic data to determine whether the local market will undergo economic growth, stabilize, or decline. In addition to predicting the direction of the economy, the rate of change must be quantified. These trends are then correlated based on their propensity to reflect variations in lodging demand, with the objective of forecasting the amount of growth or decline in visitation by individual market segment, e.g. commercial, meeting and group, and leisure.

#### Market Area Definition

The market area for a lodging facility is the geographical region where the sources of demand and the competitive supply are located. The subject site is located in the city of Cupertino, the county of Santa Clara, and the state of California.

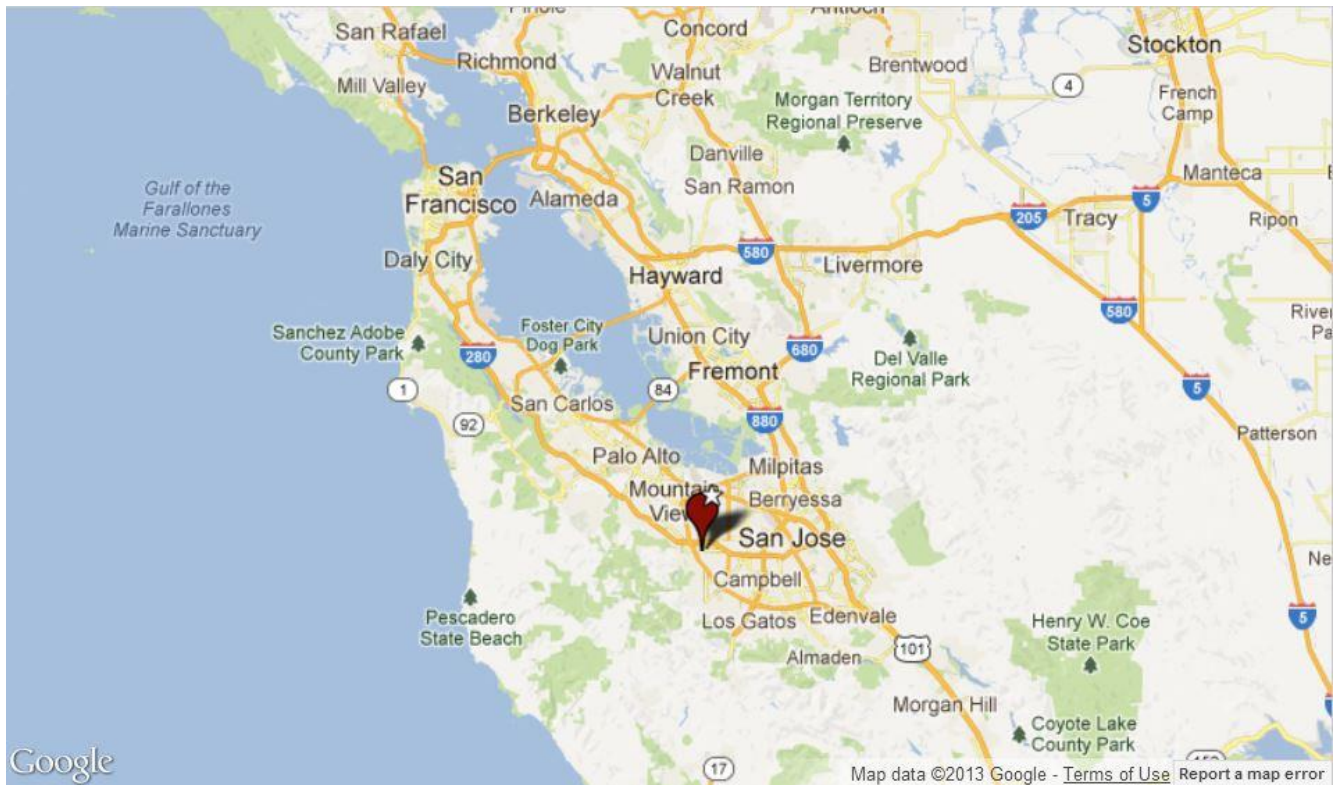
Cupertino is an affluent suburb in Santa Clara County. Because of the concentration of high-technology, electronics-oriented companies, Santa Clara county is referred to as Silicon Valley. Cupertino is part of the greater Silicon Valley economic base, which includes such cities as Palo Alto, Santa Clara, San Jose, Mountain View, and Sunnyvale. The city of Cupertino boasts the international headquarters of Apple Incorporated, nearly 20 corporate headquarters, and 60 high-tech firms. The greater Silicon Valley region is technology-driven with major employers such as Cisco Systems, Adobe Systems, eBay, Google, Hewlett-Packard, Oracle, Symantec, and Facebook. Companies in Silicon Valley have received more patents than any other technology region in the United States. The economy in Silicon Valley has historically been cyclical. The tech economy is currently in a robust period. Social media companies and internet companies are continuing to expand with no anticipation of contraction at this time.

The subject's market area can be defined by its Metropolitan Statistical Area (MSA): San Jose-Sunnyvale-Santa Clara, CA MSA. The MSA is the most standard definition used in comparative studies of metropolitan areas. The federal government defines an MSA as a large population nucleus, which, together with adjacent counties, has a higher degree of social integration. The following exhibit illustrates the market area.





## MAP OF MARKET AREA



### Economic and Demographic Review

A primary source of economic and demographic statistics used in this analysis is the Complete Economic and Demographic Data Source published by Woods & Poole Economics, Inc. – a well-regarded forecasting service based in Washington, D.C. Using a database containing more than 900 variables for each county in the nation, Woods & Poole employs a sophisticated regional model to forecast economic and demographic trends. Historical statistics are based on census data and information published by the Bureau of Economic Analysis. Projections are formulated by Woods & Poole, and all dollar amounts have been adjusted for inflation, thus reflecting real change.

These data are summarized in the following table.

**FIGURE 3-1 ECONOMIC AND DEMOGRAPHIC DATA SUMMARY**

					Average Annual		
					Compounded Change		
	2000	2010	2016	2020	2000-10	2010-16	2016-20
Resident Population (Thousands)							
Santa Clara County	1,684.9	1,786.3	1,878.3	1,933.7	0.6 %	0.8 %	0.7 %
San Jose-Sunnyvale-Santa Clara, CA MSA	1,738.7	1,841.8	1,937.6	1,995.7	0.6	0.8	0.7
San Jose-San Francisco-Oakland, CA CSA	7,680.3	8,171.4	8,594.0	8,865.0	0.6	0.8	0.8
State of California	33,988.0	37,338.2	39,709.2	41,373.3	0.9	1.0	1.0
United States	282,162.4	309,330.2	327,418.3	340,554.3	0.9	1.0	1.0
Per-Capita Personal Income*							
Santa Clara County	\$66,871	\$56,498	\$62,457	\$66,286	(1.7)	1.7	1.5
San Jose-Sunnyvale-Santa Clara, CA MSA	65,904	55,800	61,636	65,374	(1.7)	1.7	1.5
San Jose-San Francisco-Oakland, CA CSA	56,209	52,349	56,623	59,840	(0.7)	1.3	1.4
State of California	40,184	41,211	44,119	46,554	0.3	1.1	1.4
United States	36,473	39,144	42,065	44,387	0.7	1.2	1.4
W&P Wealth Index							
Santa Clara County	179.8	144.1	148.4	149.1	(2.2)	0.5	0.1
San Jose-Sunnyvale-Santa Clara, CA MSA	177.4	142.5	146.6	147.2	(2.2)	0.5	0.1
San Jose-San Francisco-Oakland, CA CSA	150.7	133.2	134.2	134.4	(1.2)	0.1	0.0
State of California	109.9	106.1	106.0	106.0	(0.3)	(0.0)	(0.0)
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0
Food and Beverage Sales (Millions)*							
Santa Clara County	\$2,868	\$3,360	\$3,752	\$3,961	1.6	1.9	1.4
San Jose-Sunnyvale-Santa Clara, CA MSA	2,915	3,407	3,806	4,020	1.6	1.9	1.4
San Jose-San Francisco-Oakland, CA CSA	12,462	14,852	16,723	17,768	1.8	2.0	1.5
State of California	46,672	59,584	68,256	73,618	2.5	2.3	1.9
United States	368,842	447,396	509,009	548,160	1.9	2.2	1.9
Total Retail Sales (Millions)*							
Santa Clara County	\$26,654	\$28,830	\$33,119	\$35,421	0.8	2.3	1.7
San Jose-Sunnyvale-Santa Clara, CA MSA	27,142	29,210	33,562	35,902	0.7	2.3	1.7
San Jose-San Francisco-Oakland, CA CSA	112,965	117,365	134,638	144,098	0.4	2.3	1.7
State of California	446,496	490,207	569,419	616,143	0.9	2.5	2.0
United States	3,902,969	4,149,070	4,800,048	5,187,469	0.6	2.5	2.0

\* Inflation Adjusted

Source: Woods &amp; Poole Economics, Inc.



## Workforce Characteristics

The U.S. population has grown at an average annual compounded rate of 1.0% from 2010 through 2016. The county's population has grown on par with the nation's population, averaging 0.8% between 2010 and 2016. Per-capita personal income increased slightly, at 1.7% on average annually for the county between 2010 and 2016. Local wealth indexes have remained stable in recent years, registering a relatively high 148.4 level for the county in 2016.

Food and beverage sales totaled \$3,752 million in the county in 2016, versus \$3,360 million in 2010; this reflects a 1.9% average annual change. From 2016 through 2020, the pace of growth is forecast to moderate to an annual average rate of 1.4%. The retail sales sector demonstrated an annual increase of 0.8% registered in the decade of 2000 to 2010, followed by an increase of 2.3% in the period 2010 to 2016. An increase of 1.7% average annual change is expected in county retail sales through 2020.

The characteristics of an area's workforce provide an indication of the type and amount of transient visitation likely to be generated by local businesses. Sectors such as finance, insurance, and real estate (FIRE); wholesale trade; and services produce a considerable number of visitors who are not particularly rate-sensitive. The government sector often generates transient room nights, but per-diem reimbursement allowances often limit the accommodations selection to budget and mid-priced lodging facilities. Contributions from manufacturing, construction, transportation, communications, and public utilities (TCPU) employers can also be important, depending on the company type.

The following table sets forth the county workforce distribution by business sector in 2000, 2010, and 2016, as well as a forecast for 2020.

**FIGURE 3-2 HISTORICAL AND PROJECTED EMPLOYMENT (000S)**

Industry	2000	Percent of Total	2010	Percent of Total	2016	Percent of Total	2020	Percent of Total	Average Annual Compounded Change		
									2000-2010	2010-2016	2016-2020
Farm	5.3	0.4 %	3.1	0.3 %	2.8	0.2 %	2.8	0.2 %	(5.1) %	(1.8) %	(0.2) %
Forestry, Fishing, Related Activities And Other	1.4	0.1	1.5	0.1	1.8	0.1	1.8	0.1	1.0	2.5	1.0
Mining	0.9	0.1	1.7	0.2	2.0	0.2	2.0	0.2	6.7	2.5	0.3
Utilities	2.5	0.2	1.6	0.1	1.5	0.1	1.5	0.1	(4.7)	(0.4)	(0.4)
Construction	58.8	4.6	44.1	4.0	45.6	3.7	47.4	3.6	(2.8)	0.5	1.0
Manufacturing	263.3	20.7	156.7	14.1	162.7	13.3	162.8	12.5	(5.1)	0.6	0.0
Total Trade	158.7	12.5	135.0	12.1	146.8	12.0	154.0	11.9	(1.6)	1.4	1.2
Wholesale Trade	48.1	3.8	41.1	3.7	43.6	3.6	44.6	3.4	(1.6)	1.0	0.6
Retail Trade	110.6	8.7	93.8	8.4	103.2	8.4	109.3	8.4	(1.6)	1.6	1.5
Transportation And Warehousing	20.9	1.6	15.9	1.4	16.5	1.3	16.8	1.3	(2.7)	0.6	0.5
Information	47.5	3.7	48.9	4.4	58.5	4.8	61.9	4.8	0.3	3.0	1.4
Finance And Insurance	34.9	2.7	42.9	3.9	50.4	4.1	54.5	4.2	2.1	2.7	2.0
Real Estate And Rental And Lease	42.7	3.4	57.6	5.2	61.5	5.0	64.5	5.0	3.0	1.1	1.2
Total Services	536.9	42.2	510.2	45.9	587.1	47.8	637.1	49.1	(0.5)	2.4	2.1
Professional And Technical Services	175.7	13.8	157.6	14.2	177.0	14.4	188.2	14.5	(1.1)	2.0	1.5
Management Of Companies And Enterprises	24.3	1.9	10.0	0.9	9.9	0.8	9.9	0.8	(8.5)	(0.3)	0.1
Administrative And Waste Services	84.8	6.7	65.9	5.9	76.8	6.3	83.2	6.4	(2.5)	2.6	2.0
Educational Services	32.7	2.6	42.7	3.8	52.7	4.3	58.5	4.5	2.7	3.6	2.6
Health Care And Social Assistance	80.3	6.3	94.9	8.5	110.7	9.0	124.1	9.6	1.7	2.6	2.9
Arts, Entertainment, And Recreation	20.0	1.6	21.6	1.9	23.6	1.9	25.7	2.0	0.8	1.4	2.2
Accommodation And Food Services	68.5	5.4	68.3	6.1	78.7	6.4	85.0	6.5	(0.0)	2.4	2.0
Other Services, Except Public Administration	50.5	4.0	49.3	4.4	57.7	4.7	62.5	4.8	(0.2)	2.7	2.0
Total Government	99.4	7.8	92.5	8.3	90.4	7.4	91.2	7.0	(0.7)	(0.4)	0.2
Federal Civilian Government	12.1	1.0	10.7	1.0	10.4	0.9	10.8	0.8	(1.3)	(0.3)	0.8
Federal Military	3.7	0.3	3.2	0.3	3.2	0.3	3.3	0.3	(1.2)	(0.1)	0.1
State And Local Government	83.6	6.6	78.6	7.1	76.8	6.3	77.2	5.9	(0.6)	(0.4)	0.1
TOTAL	1,273.2	100.0 %	1,111.8	100.0 %	1,227.6	100.0 %	1,298.3	100.0 %	(1.3) %	1.7 %	1.4 %
MSA	1,295.1	—	1,132.2	—	1,249.2	—	1,320.8	—	(1.3) %	1.7 %	1.4 %
U.S.	165,371.0	—	173,626.7	—	188,004.1	—	198,343.5	—	0.8	1.3	1.3

Source: Woods & Poole Economics, Inc.



## Unemployment Statistics

Woods & Poole Economics, Inc. reports that during the period from 2000 to 2010, total employment in the county contracted at an average annual rate of -1.3%. This trend was on par with the decline recorded by the MSA, but lagged the national average, reflecting the contracting nature of the local economy throughout most of that decade. However, the pace of total employment growth in the county rebounded to 1.7% on an annual average from 2010 to 2016, reflecting steady recovery followed by continued growth.

Of the primary employment sectors, Total Services recorded the highest increase in number of employees during the period from 2010 to 2016. Of the various service sub-sectors, Professional And Technical Services and Health Care And Social Assistance were the largest employers. Forecasts developed by Woods & Poole Economics, Inc. anticipate that total employment in the county will change by 1.4% on average annually through 2020. The trend is on par with the forecast rate of change for the U.S. as a whole during the same period.

The following table presents historical unemployment rates for the proposed subject hotel's market area.

**FIGURE 3-3 UNEMPLOYMENT STATISTICS**

Year	County	MSA	State	U.S.
2007	4.7 %	4.8 %	5.4 %	4.6 %
2008	6.0	6.1	7.3	5.8
2009	10.6	10.7	11.2	9.3
2010	10.9	11.1	12.2	9.6
2011	9.7	9.9	11.7	8.9
2012	8.4	8.5	10.4	8.1
2013	6.9	7.0	8.9	7.4
2014	5.2	5.3	7.5	5.6
2015	4.2	4.3	6.2	5.0
2016	3.8	3.8	5.4	4.7
<i>Recent Month - May</i>				
2016	3.4 %	3.5 %	5.5 %	4.7 %
2017	2.9	3.0	4.7	4.3

\* Letters shown next to data points (if any) reflect revised population controls and/or model re-estimation implemented by the BLS.

Source: U.S. Bureau of Labor Statistics



## Major Business and Industry

The recession and financial crisis in 2007 and 2008, resulted in heightened unemployment rates from 2008 through 2010. Job growth resumed in late 2009, generating a decline in the unemployment rate every subsequent year through the present time. In May 2017, the national unemployment rate decline to 4.3%, the lowest level recorded since 2008; this positive trend reflects steady progress by the U.S. economy.

The county unemployment rate declined to its lowest historical level, at 2.9% in May 2017. This can be attributed to the high concentration of corporate headquarters, technology companies, and various start-up and service businesses in Silicon Valley, which has contributed to the region's economic strength. According to recent publications and development officials, the economy thrives and industries in Silicon Valley are expecting continued job growth.

The subject site is located in Cupertino, a part of the Silicon Valley. The region lists numerous companies with 1,000 employees or more, including Apple, Adobe, Cisco, Google, Yahoo, Facebook, and eBay, as well as major facilities for Flextronics, Hewlett-Packard, IBM, Hitachi, and Lockheed Martin.

Providing additional context for understanding the nature of the regional economy, the following table presents a list of the major employers in the subject's market. Apple's new 175-acre campus located in Cupertino will be occupied by 12,000 company employees. The move reportedly started in April 2017.

**FIGURE 3-4 MAJOR EMPLOYERS**

Rank	Firm	Number of Employees
1	Apple, Inc,	25,000
2	Google, Inc.	20,000
3	County of Santa Clara	16,837
4	Stanford University	13,500
5	Kaiser Permanente Northern California	12,500
6	Cisco Systems, Inc.	15,700
7	Tesla Motors Inc.	10,000
8	Facebook Inc.	9,385
9	Stanford Hospital & Clinics	7,700
10	Oracle Corp.	8,000

Source: Silicon Valley Book of Lists 2016, Private Sector Employers



The following bullet points highlight major demand generators for this market:

- Apple, Inc., is a multinational corporation headquartered in Cupertino. Apple designs, manufactures, and markets mobile communication and media devices, personal computers, and portable digital music players. The company's best-known hardware products include the Macintosh line of computers, the iPod, the iPhone, and the iPad. Apple is the largest landowner in Cupertino. Apple will be completing a second campus, known as "Apple Park", consisting of 175 total acres, inclusive of the 98 acres previously owned by Hewlett-Packard, and is defined by I-280 to the south, Wolfe Road to the west, Homestead Road to the north, and North Tantau Avenue to the east. Construction broke ground in late 2013; structures include a 2.8-million-square-foot office structure, which will accommodate up to 12,000 employees, and include a 1,000-seat auditorium, a fitness center, a research facility, and underground parking. In late April 2017, 12,000 company employees began moving into Apple Park.
- Google Inc. is one of Santa Clara County's principal employers and is headquartered in Mountain View, California. Google is a global technology leader focused on "improving the ways people connect with information" and specializes in Internet-related services and products, which include search, cloud computing, software, and online advertising technologies. Google is planning a new transit-oriented development that includes between 6 and 8 million square feet of office/R&D space and retail/commercial amenities in San Jose, Diridon Caltrain station. The development would be three times the size of Apple Park and could support more than 20,000 new Downtown employees, significantly aiding the City's need for local jobs and supporting ridership on existing and new public transportation investments.
- Cisco Systems is one of the largest private employer for the market. Cisco is a multinational corporation based in San Jose, California. Cisco designs, manufactures, and sells networking equipment. In January 2016, Cisco invested in VeloCloud, a software-defined WAN (SD-WAN) start-up with a cloud offering for configuring and optimizing branch office networks. Cisco contributed to VeloCloud's \$27 million Series C round, led by March Capital Partners. Cisco is one of two strategic investors. In February 2017, Cisco premiered a cloud-based secure internet gateway to tackle cloud and mobile security risks. The offering, Cisco Umbrella, is tailored to provide safe internet access to users who do not use their corporate networks or VPNs to connect to remote data centers.
- Education drives a significant portion of the economy in Santa Clara County. Stanford University, located near Palo Alto, is a leading private research





university that boasts more than 50 faculty, staff, and alumni that have won the Nobel Prize. The university is renowned for its bio-technology research and was the first university to offer a graduate program in stem-cell research. Additionally, Stanford is respected for its research in the high-tech field and has very close ties with Silicon Valley.

Santa Clara County and the surrounding Silicon Valley have a large concentration of high-tech companies that have created a strong foundation for the area. In the past three years, the market has enjoyed considerable growth led by its strong economic base. The outlook for the market is optimistic with expected continued growth in the foreseeable future.

#### **Office Space Statistics**

Trends in occupied office space are typically among the most reliable indicators of lodging demand, as firms that occupy office space often exhibit a strong propensity to attract commercial visitors. Thus, trends that cause changes in vacancy rates or in the amount of occupied office space may have a proportional impact on commercial lodging demand and a less direct effect on meeting demand. The following table details office space statistics for the pertinent market area.

**FIGURE 3-5 HISTORICAL OFFICE SPACE STATISTICS – SILICON VALLEY, Q1 2017 VS. Q1 2016**

Map	Submarket	Total	Leasing Activity		Available SF			Availability Rate			Asking Rents Per SF		
		SF (1000's)	Last 12 Months	Net Absorp Last 12 Mos.	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. <sup>(1)</sup>	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	Campbell/Los Gatos	2,967	135	17	351	9.7%	190	11.8%	1.2%	6.3%	\$3.69	7.2%	\$3.42
	Campbell/Los Gatos - Class A	614	6	9	49	31.3%	28	8.0%	1.9%	4.6%	\$4.00	10.2%	\$3.62
2	Downtown San Jose	9,030	539	306	1,529	-0.9%	1,629	16.9%	-0.2%	18.1%	\$3.25	1.8%	\$2.89
	Downtown San Jose - Class A	3,425	261	125	531	-8.9%	667	15.5%	-1.5%	19.5%	\$3.50	4.9%	\$3.10
3	Milpitas	2,790	493	-251	637	-6.7%	762	22.8%	-1.6%	27.3%	\$1.93	4.6%	\$1.76
	Milpitas - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
4	Morgan Hill/Gilroy	713	61	4	19	25.2%	36	2.7%	0.5%	5.0%	\$1.42	0.4%	\$1.45
	Morgan Hill/Gilroy - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$0.00	N/A	\$0.00
5	Mountain View/Los Altos	7,597	366	-10	909	45.5%	554	12.0%	3.7%	7.3%	\$5.78	9.4%	\$5.16
	Mountain View/Los Altos - Class A	1,234	10	5	194	0.0%	161	15.7%	0.0%	13.1%	\$5.06	0.0%	\$4.25
6	North San Jose	12,289	999	-41	3,678	-11.1%	3,004	29.9%	-3.7%	24.5%	\$2.92	-0.5%	\$2.54
	North San Jose - Class A	4,827	631	70	1,716	-1.1%	1,280	35.5%	-0.4%	26.5%	\$3.06	-0.2%	\$2.94
7	Palo Alto	6,644	420	-63	372	-0.1%	451	5.6%	0.0%	6.8%	\$6.69	-1.9%	\$6.09
	Palo Alto - Class A	285	2	2	N/A	-100.0%	2	0.0%	-0.3%	0.9%	\$3.50	-25.9%	\$4.70
8	Santa Clara	14,264	936	284	2,677	5.2%	1,747	18.8%	0.9%	12.6%	\$3.34	-1.8%	\$3.19
	Santa Clara - Class A	5,977	536	195	1,469	4.9%	543	24.6%	1.2%	9.7%	\$3.76	0.1%	\$3.60
9	South San Jose	3,853	294	238	356	-0.2%	313	9.2%	0.0%	8.1%	\$3.63	2.3%	\$3.51
	South San Jose - Class A	517	14	0	150	-2.5%	51	29.0%	-0.7%	10.0%	\$4.42	0.9%	\$4.00
10	Sunnyvale/Cupertino	13,829	1,294	1,520	1,388	33.2%	1,415	10.0%	2.6%	10.1%	\$4.12	5.2%	\$3.49
	Sunnyvale/Cupertino - Class A	7,857	1,114	982	778	41.5%	939	9.9%	3.0%	11.9%	\$4.63	11.6%	\$3.87
11	Menlo Park	5,009	205	216	589	9.7%	747	11.8%	1.0%	14.9%	\$7.31	1.7%	\$5.71
	Menlo Park - Class A	1,502	145	236	259	-6.1%	405	17.3%	-1.1%	27.0%	\$7.21	-1.5%	\$5.31
12	Fremont	2,122	92	-22	265	-1.6%	211	12.5%	-0.2%	10.0%	\$1.97	0.9%	\$1.64
	Fremont - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1-12	Silicon Valley Total	81,107	5,836	2,199	12,770	2.6%	11,059	15.7%	0.4%	13.7%	\$3.87	3.8%	\$3.65
	Silicon Valley Total - Class A	26,237	2,810	1,624	5,145	4.4%	4,078	19.6%	0.9%	15.7%	\$4.12	4.5%	\$3.59

Source: Savills Studley Report

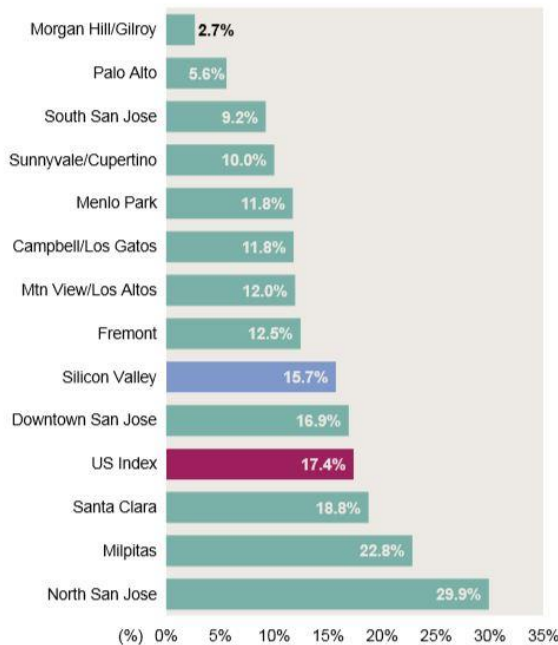


The greater San Jose-Silicon Valley Office market comprises a total of 81.1 million square feet of office space. For the 1st Quarter of 2017, the overall market reported a vacancy rate of 15.7% and an average asking rent of \$3.87 per square foot (PSF). Compared to the previous 1st Quarter of 2016, vacancy rates increased, while asking rent increased. The subject is located in the Sunnyvale/Cupertino submarket, which houses 13,829,000 square feet of office space, 7,857,000 of which is classified Class A office space. The submarket's Class A office space vacancy rate decreased year-over-year from 11.9% to 9.9%, from Q1 2016 to Q1 2017, respectively. The average asking lease rate for Class A office space also increased from \$3.87 PSF to \$4.63 PSF for the same period. With the exception of Palo Alto and Los Altos, the subject submarket's average asking rate is above those of the broader market.

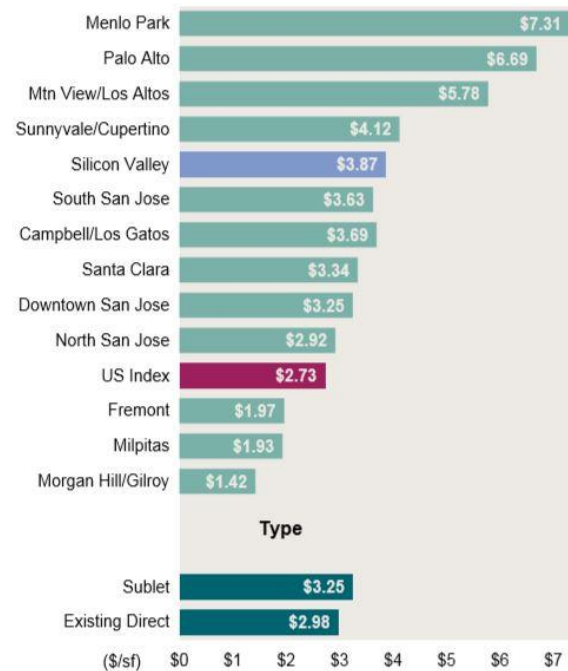
The following table illustrates office space statistics for the Silicon Valley Office market. Note, the Sunnyvale/Cupertino submarket is among the top performing office space markets in the Silicon Valley.

**FIGURE 3-6 OFFICE SPACE STATISTICS – Q1 2017**

#### Availability Rate Comparison



#### Rental Rate Comparison



Source: Savills Studley Report



The following table illustrates major office space leasing activity reported for the Silicon Valley Office market.

**FIGURE 3-7 MAJOR OFFICE LEASING ACTIVITY – Q1 2017**

Tenant	Square Feet	Address	Market Area
Amazon.com	350,663	1111 Lockheed Martin Way	Sunnyvale/Cupertino
Gigamon, Inc	105,664	3300 Olcott St	Santa Clara
San Andreas Regional Center	73,610	6203 San Ignacio Ave	South San Jose
Panasonic	52,540	10900 N Tantau Ave	Sunnyvale/Cupertino
Merrill Lynch, Pierce, Fenner & Smith	50,293	3075 Hansen Way	Palo Alto
Gigamon, Inc	45,896	3250 Olcott S	Santa Clara
White & Case	39,873	3000 El Camino Real	North San Jose
Moss Adams	39,770	635 Campbell Technology Pky	Campbell/Los Gatos
Viavi Solutions	36,715	6001 America Center Dr	North San Jose
MobileIron Inc	34,905	415 E Middlefield Rd	Mountain View/Los Altos

Source: Savills Studley Report

### Research and Development Space Statistics

Trends in occupied research and development (R&D) space are important indicators of lodging demand. Firms that occupy R&D space in this particular submarket often exhibit a strong propensity to generate commercial demand for hotels. Thus, trends that cause changes in vacancy rates or in the amount of occupied R&D space may have a proportional impact on commercial lodging demand and a less direct effect on meeting demand. The following table illustrates statistics related to R&D space in the Silicon Valley, as defined by Cushman & Wakefield.



**FIGURE 3-8 RESEARCH AND DEVELOPMENT SPACE STATISTICS – FIRST QUARTER 2017**

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	UNDER CONST (SF)	OVERALL AVERAGE ASKING RATE
Menlo Park	4,027,997	48,312	116,617	4.1%	-28,705	-28,705	0	\$3.42
Palo Alto	10,302,514	77,736	245,561	3.1%	-92,793	-92,793	0	\$5.32
Mountain View	15,111,665	385,259	546,423	6.2%	-273,487	-273,487	0	\$3.89
Cupertino	4,738,801	0	41,673	0.9%	-9,926	-9,926	0	\$4.02
Westside	2,286,126	0	93,464	4.1%	10,577	10,577	0	\$2.45
Sunnyvale	22,284,383	501,566	1,090,326	7.1%	231,761	231,761	266,316	\$2.65
Santa Clara	21,733,605	317,837	2,296,915	12.0%	12,313	12,313	500,000	\$2.25
North San Jose	35,995,924	1,083,204	3,650,672	13.2%	614,063	614,063	479,991	\$2.03
South San Jose	10,801,734	101,744	1,928,122	18.8%	-111,667	-111,667	0	\$1.46
Milpitas	12,897,353	186,988	1,424,469	12.5%	46,917	46,917	0	\$1.65
Fremont	20,912,493	169,560	2,496,531	12.7%	-83,937	-83,937	0	\$1.34
Newark	3,092,521	55,280	218,735	8.9%	-8,752	-8,752	0	\$1.97
Morgan Hill/Gilroy	3,544,528	0	75,677	2.1%	65,204	65,204	0	\$0.97
<b>TOTAL</b>	<b>167,729,644</b>	<b>2,927,486</b>	<b>14,225,185</b>	<b>10.2%</b>	<b>371,568</b>	<b>371,568</b>	<b>1,246,307</b>	<b>\$2.09</b>

Asking rents converted to NNN

Source: Cushman & Wakefield MarketBeat Silicon Valley Q1 2017

The Silicon Valley vacancy rate decreased slightly during the first quarter to 10.2%, down from the 10.3% rate from three months prior. This minimal decline came on the heels of four consecutive quarters of increasing vacancy. The average asking rent for R&D space in Silicon Valley closed the first quarter of 2017 at \$2.09 per square foot (PSF) on a monthly triple net basis. This is up from the \$1.97 PSF posted the same period last year. Palo Alto, Cupertino and Mountain View led the Valley's asking rents at \$5.32 PSF, \$4.02 PSF and \$3.89 PSF, respectively. The largest increase over the past year was the +16.1% jump recorded in Palo Alto. As a result of these positive trends, the outlook for Silicon Valley R&D marketplace is generally optimistic.

## Airport Traffic

Airport passenger counts are important indicators of lodging demand. Depending on the type of service provided by a particular airfield, a sizable percentage of arriving passengers may require hotel accommodations. Trends showing changes in passenger counts also reflect local business activity and the overall economic health of the area.

### Norman Y. Mineta San Jose International Airport (SJC)

The Norman Y. Mineta San José International Airport (SJC) is located at the north end of San Jose, near the intersections of three major freeways. SJC is the smallest of the three Bay Area airports offering scheduled service. Similar to Oakland International Airport, this airport attracts suburban residents who find SFO to be inconveniently distant from



their homes. The North Concourse of Terminal B, the newest section of the airport, was completed in June 2010. Southwest Airlines is the primary tenant, along with Alaska Airlines, Horizon Air, Hainan Airlines, Lufthansa, and British Airways. Airlines located in Terminal A include American Airlines, United Airlines, JetBlue, and Air China. SJC hosts 14 airlines flying to and from international and domestic destinations.

In the last two years, the airport has experienced significant growth. The international terminal has grown from three carriers to eight with flights to London, Frankfurt, Beijing, Shanghai, Tokyo, Vancouver, Cabo San Lucas and Guadalajara. Aero Mexico will be the newest international carrier to join San Jose in July 2017. With the dramatic growth, SJC needed to expand and improve its International Arrivals Building to better accommodate the surge in international passengers, adding an \$8.2 million facility that opened in April 2017.

The following table illustrates recent operating statistics for Norman Y. Mineta San Jose International Airport, which is the primary airport facility serving the subject hotel's submarket.

**FIGURE 3-9 AIRPORT STATISTICS - NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT**

Year	Passenger Traffic	Percent Change*	Percent Change**
2007	10,658,385	—	—
2008	9,717,717	(8.8) %	(8.8) %
2009	8,321,750	(14.4)	(11.6)
2010	8,246,064	(0.9)	(8.2)
2011	8,357,384	1.3	(5.9)
2012	8,296,174	(0.7)	(4.9)
2013	8,783,319	5.9	(3.2)
2014	9,385,212	6.9	(1.8)
2015	9,799,427	4.4	(1.0)
2016	10,796,725	10.2	0.1
<i>Year-to-date, Apr</i>			
2016	3,147,700	—	—
2017	3,577,336	13.6 %	—

\*Annual average compounded percentage change from the previous year

\*\*Annual average compounded percentage change from first year of data

Source: Norman Y. Mineta San Jose International Airport





Resulting from the overall strength of the Bay Area' economy, passenger traffic has increased since the 2009 economic crisis. The year-to-date data through April 2017 reflects the strength of the local and regional economy. 2016 was a record breaking year for Silicon Valley's airport, with the addition of four new international destinations and several new domestic. According to airport officials, the growth is the direct result of the addition of several new international flights that were added in 2016. That includes the addition of Frankfurt on Lufthansa, London Heathrow on British Airways, Shanghai on Air China, and Vancouver on Air Canada.

#### San Francisco International Airport (SFO)

This four-terminal airport is one of the busiest airports in the country, with extensive international and national service. The airport features ample amenities and services, which include various restaurants, shops, spa treatments, business centers, an aviation library, and a children's area. Major commercial airlines, such as United, American, Frontier, Southwest, and Alaska, service the airport.

In 2016, Airport Officials announced SFO is developing a new Airport-owned and privately managed luxury hotel – the Grand Hyatt at SFO. Prominently located at the entrance to SFO, the 4.2-acre site is close to terminal buildings and parking garages, with excellent access to US Highway 101. AirTrain will provide direct access to the hotel. Construction is planned to start in Q3 2017 and to be completed by July 2019. The hotel will feature 351 soundproofed guest rooms (including 21 suites), a direct connectivity to AirTrain Station, 15,200 square feet of net meeting space (excluding pre-function areas), a 90-seat three-meal restaurant, two bars, a "Grab & go" market, In-room dining service, a Grand Club, a 2,700-square-foot fitness center, 215-space surface parking lot, and lush native landscaping and green areas.

The following table illustrates recent operating statistics for the San Francisco International Airport (SFO), which is the second airport facility serving the subject hotel's submarket.





**FIGURE 3-10 AIRPORT STATISTICS – SAN FRANCISCO INTERNATIONAL AIRPORT**

Year	Passenger Traffic	Percent Change*	Percent Change**
2007	35,790,835	—	—
2008	37,402,541	4.5 %	4.5 %
2009	37,453,634	0.1	2.3
2010	39,116,764	4.4	3.0
2011	40,810,141	4.3	3.3
2012	44,477,209	9.0	4.4
2013	45,011,764	1.2	3.9
2014	47,155,100	4.8	4.0
2015	50,067,094	6.2	4.3
2016	53,106,505	6.1	4.5
<i>Year-to-date, Apr</i>			
2016	15,603,905	—	—
2017	16,136,803	3.4 %	—

\*Annual average compounded percentage change from the previous year

\*\*Annual average compounded percentage change from first year of data

Source: San Francisco International Airport

San Francisco International Airport continues to experience robust growth, with increases in consecutive periods since 2007. Passenger traffic in 2016 represented a new all-time record for passenger traffic with a total of 53.1 million passengers traveling through San Francisco International Airport. The year-to-date data through April 2017 has increased by 3.4% over the same period last year.

The growth is partly credited with new international airlines at the airport, including the addition of WOW Air, Fiji Airways and Volaris. Additionally, United Airlines launched three new international destinations from SFO in 2016, including first-ever nonstop flights to Tel Aviv and X'ian and Hangzhou in China. China Eastern Airlines also added the first nonstop service to Qingdao. With the new destinations, SFO now serves more cities in China than any other American airport, according to SFO officials.

#### Oakland International Airport (OAK)

Oakland International Airport is located eight miles south of Downtown Oakland in Alameda County, California, and is one of three international airports in the San Francisco Bay Area. Major commercial airlines that service the airport include



Southwest, United, and Alaska Airlines, among others. The airport is a popular alternative to San Francisco International, thanks to the large population located in the East Bay that is more proximate to OAK than SFO.

The following table illustrates recent operating statistics for the Oakland International Airport.

**FIGURE 3-11 AIRPORT STATISTICS – OAKLAND INTERNATIONAL AIRPORT**

Year	Passenger Traffic	Percent Change*	Percent Change**
2007	14,417,645	—	—
2008	11,474,456	(20.4) %	(20.4) %
2009	9,505,281	(17.2)	(18.8)
2010	9,542,333	0.4	(12.9)
2011	9,266,570	(2.9)	(10.5)
2012	10,040,864	8.4	(7.0)
2013	9,742,887	(3.0)	(6.3)
2014	10,336,788	6.1	(4.6)
2015	11,205,063	8.4	(3.1)
2016	12,070,967	7.7	(2.0)
<i>Year-to-date, Apr</i>			
2016	3,551,688	—	—
2017	3,829,266	7.8 %	—

\*Annual average compounded percentage change from the previous year

\*\*Annual average compounded percentage change from first year of data

Source: Oakland International Airport

The fluctuation in passenger statistics over the historical period can be attributed in part to the airport's reliance on compression from SFO and the slow pace of recovery as flight schedules return to the airport. In 2016, the airport saw more than 12 million passengers, marking a 7.7 percent increase from 2015, in which 11.2 million passengers were served at the airport. The long-term outlook for the airport is positive and is reflected in the year-to-date data through April 2017.

The airport attributes it mostly to its surge in international flights. International operations increased by 73% compared to the same period last year. Southwest Airlines began its first international routes — to Los Cabos and Puerto Vallarta, Mexico — from



Oakland in February. The airport also saw new service launch from Norwegian Air from Oakland to Copenhagen and a route to London from British Airways.

### **Tourist Attractions**

The market benefits from a variety of tourist and leisure attractions in the area. The peak season for tourism in this area is from May to September. During other times of the year, weekend demand comprises travelers passing through en route to other destinations, people visiting friends or relatives, and other similar weekend demand generators. Primary attractions in the area include the following:

- The SAP Center at San Jose, previously known as the HP Pavilion, is a 20,000-seat entertainment complex in Downtown San Jose. The arena is used for the San Jose Sharks professional hockey team, pre-season National Basketball Association games, San Jose State University basketball games, and musical entertainment events. Furthermore, SAP Center hosted the National Collegiate Athletic Association (NCAA) 2017 regional round of the NCAA men's basketball tournament.
- Levi's Stadium, which opened in July of 2014 in Santa Clara, is home to the San Francisco 49ers of the National Football League. Built at a cost of \$1.3 billion, the stadium has a capacity of 68,500 people (expandable to 75,000 for special events). The stadium, which was constructed with many environmentally sustainable components, is one of the largest buildings registered with the Green Building Council. Moreover, Levi's Stadium hosted Super Bowl 50 on February 7, 2016.
- Santana Row is a multimillion-dollar, upscale, retail development featuring 563,000 square feet of retail space, 514 residential units, numerous restaurants, and a cinema complex in San Jose. The outdoor shopping mall offers a mix of high-end, brand-name shops and local boutiques, including stores such as Gucci, Kate Spade, H&M, and Ann Taylor LOFT, as well as several spas, salons, and the Hotel Valencia.
- The Great Mall of the Bay Area, more commonly known as Great Mall, is a large indoor outlet shopping mall in Milpitas. It contains approximately 1.4 million square feet of gross leasable area. Various major retailers are represented in the mall, including Saks Fifth Avenue, Marshalls, Sears, and Last Call by Neiman Marcus, among many others. In addition, a Century Theatres multiplex offers 20 screens.

### **Major Developments**

Santa Clara County is undergoing major development projects that will increase and shift demand patterns in the coming years.

- First announced in 2006, Apple is nearing completion of its new 175-acre "Apple Park" which started construction in late 2013. In April 2017, 12,000 of its employees began moving in. Facilities at Apple Park include a 2.8-million-square-foot office structure, a 120,000-square-foot underground assembly space with seating for



1,000, a \$74 million gym facility, a large lobby, restrooms and back-of-the-house facilities including a catering kitchen, and a 350-stall parking structure.

- In June 2016, the Santa Clara city council voted to unanimously approve a \$6.5 billion private development project for the area next to Levi's Stadium. The mixed-use project will go on a 240-acre site that currently includes a golf course and dirt-bike track. Construction is expected to begin in late 2017, and rolled out in phases. A real estate firm involving Joe Montana was originally the lead on a development plan. They are no longer leading it; Related Companies, L.P., is the developer. However, there will potentially be a Montana led sports-themed restaurant included in the first phase. Phase 1 includes a minimum of 600,000 square feet of office, a 300-room hotel, and 50,000 square feet of retail on a parking lot across from the stadium. That will be followed by a "City Center" phase, which would add a minimum of 500,000 square feet of retail, plus offices and potentially apartments.
- In October 2016, the Sunnyvale Town Center, a 36-acre mixed-use project, broke ground after it had previously stalled for a number of years. The property's new owners STC Venture, a joint venture between Hunter Storm, Sares Regis Group of Northern California and J.P. Morgan Asset Management acquired the property from Wells Fargo last year. The plans include remodeling of all retail facilities projected to start by mid-2017; three residential buildings that will house 198 luxury apartment units by the middle of 2018. A theater, a hotel, a town square, and 248,200 square feet of retail space are also planned for the development.
- The Main Street Cupertino project is one of the largest commercial projects recently built in Cupertino in years. The mixed-use project will include 130,500 square feet of retail, a 180-room Residence Inn, and 120 apartments. Apple Inc. leased two office buildings, totaling 260,000 square feet at Main Street Cupertino.
- Another major project for Cupertino is the Vallco Shopping Mall redevelopment. The large-scale redevelopment intends to convert a 1970s-era mall into 2 million square feet of office space, 640,000 square feet of retail, approximately 400 residential units and a 339-room hotel, along with a 30-acre green roof. Developer and site owner Sand Hill Property will integrate the current entertainment options like the ice rink, movie theater and bowling alley. The project is currently on hold pending Cupertino voters' approval.

## Conclusion

This section discussed a wide variety of economic indicators for the pertinent market area. Following a severe recession that lasted until early 2010, the Silicon Valley economy began to expand and has remained strong. Positive office space absorption, improving unemployment rates, and favorable hotel demand statistics indicate that the area is experiencing strong economic growth. Silicon Valley's strong economic growth in the past three years is supported by expanding company headquarters, strong commercial leasing activity, a surge in airport passenger traffic, and declining



unemployment rates. The near- term and long-term outlook for the market is optimistic because of its diverse and highly educated labor force and the presence of a healthy and rapidly expanding technology industry.



## 4. Hotel Supply and Demand Analysis

In the lodging industry, supply is measured by the number of guestrooms available, and demand is measured by the number of rooms occupied; the net effect of supply and demand toward equilibrium results in a prevailing price, or average rate. The purpose of this section is to investigate current supply and demand trends as indicated by the current competitive market, resulting in a forecast of market-wide occupancy.

### Hotel Market Area Overview

We investigated the demand for transient accommodations and identified the various generators of visitation operating within the local market. The greater Silicon Valley area comprises of cities such as Palo Alto, Menlo Park, Santa Clara, San Jose, Mountain View, Milpitas, Campbell, Cupertino, Los Gatos, and Sunnyvale. The greater Silicon Valley region is technology driven, with major employers such as Cisco Systems, Adobe Systems, Apple, eBay, Google, Hewlett-Packard, Oracle, Symantec, and Facebook. The outlook for corporate hotel demand is optimistic, with expected continued growth in the foreseeable future.

Meeting and group demand is highly dependent on the health of the corporate sector. Although the San Jose and Santa Clara Convention Centers provide a significant amount of lodging demand for hotels in San Jose, area hoteliers reported that compression from citywide conventions rarely affect the hotels in the vicinity of the subject site. Leisure lodging demand to the subject market tends to be price-sensitive, as the market area does not offer significant leisure attractions. Most leisure demand occurs on weekends and during holiday periods relating to family trips. Some leisure demand is generated by events at the SAP Center and Levi's Stadium.

### Competitive Overview

The regional competitive lodging facilities in the market were evaluated to determine their market position with respect to the proposed subject hotel. We performed physical inspections of the competitive lodging facilities along with select management interviews. The subject site is located in Cupertino, California. The greater Silicon Valley market area includes full-service, select-service, extended-stay, or limited-service properties that rely primarily on commercial demand generated by the area's high concentration of office and R&D space. The greater Silicon Valley market surrounding the subject site offers approximately 95 hotels, spanning 15,200 rooms, which are categorized by STR chain scale as upper-midscale, upscale, upper-upscale, and luxury. Of this set, the stock of newer hotels built in the past decade accounts for approximately 3,000 rooms, or 19.7% of the total, while the bulk of hotels in Silicon Valley were built in the mid-1980s to mid-1990s. It is evident that a large amount of hotels in Silicon Valley are dated and do not offer the modern accommodations desired by sophisticated



commercial travelers today. After a hotel development hiatus since the dot. com bust in the early 2000's, hotel developers are once again being attracted to the Silicon Valley market because of the very strong operating performance of area hotels. Occupancy and average rate levels now support feasible hotel development. Newer upscale hotels that cater to demanding tech-industry guests looking for high-quality services and amenities began entering the market in the past five years and new ones will continue to open over the next few years. The following tables illustrate a select set of hotels in the Silicon Valley by STR chain scale. We included upper-midscale, upscale, upper-upscale, and luxury; excluded midscale and economy.

**FIGURE 4-1 COMPETITIVE HOTEL FACILITIES BY CHAIN SCALE**

	<u>Santa Clara</u>	<u>San Jose</u>	<u>Milpitas</u>	<u>Campbell</u>	<u>Cupertino</u>	<u>Los Gatos</u>
<b>Luxury</b>		Fairmont San Jose Hotel Valencia Santana Row				Hotel Los Gatos Toll House Hotel
<b>Upper Upscale Class</b>	Biltmore Hotel & Suites Joie De Vivre Avatar Hotel The Plaza Suites Hyatt Santa Clara Embassy Suites Santa Clara Marriott Santa Clara Hilton Santa Clara	Hilton San Jose Westin Sainte Claire Marriott San Jose	Sheraton Hotel San Jose Embassy Suites Milpitas Silicon Valley	Bristol Luxury Hotel PruneYard Plaza Hotel	Cupertino Inn Juniper Hotel Curio Collection	Los Gatos Lodge
<b>Upscale Class</b>	Hyatt House Santa Clara	Doubletree San Jose Courtyard San Jose Airport Staybridge Suites San Jose San Jose Airport Hotel Four Points San Jose Downtown Hyatt Place San Jose Downtown aloft San Jose Cupertino AC Hotel Residence Inn San Jose South Homewood Suites San Jose Airport Courtyard San Jose North Hyatt House San Jose Silicon Valley Four Points San Jose Silicon Valley	Hilton Garden Inn Milpitas Staybridge Suites Milpitas Residence Inn Milpitas Crowne Plaza San Jose Courtyard Milpitas	Courtyard Campbell DoubleTree Pruneyard Plaza Residence Inn San Jose Campbell Larkspur Landing Campbell	aloft Hotel Cupertino Courtyard Cupertino Hilton Garden Inn Cupertino Residence Inn Main Street Hyatt House (U/C)	
<b>Upper Midscale Class</b>	Holiday Inn Express Holiday Inn Express & Suites Mariani's Inn Woodcrest Hotel TownePlace Suites Santa Clara	Hampton Inn Suites San Jose Holiday Inn Express San Jose Clarion Inn Silicon Valley San Jose Airport Garden Hotel Adlon Hotel Comfort Suites San Jose Airport Holiday Inn San Jose Airport Silicon Valley Hotel Fairfield Inn & Suites San Jose Comfort Inn San Jose Alura Inn Holiday Inn Express & Suites Airport Best Western Plus Lanai Garden Santa Clara Inn Arena Hotel Valley Park Hotel TownePlace Suites San Jose Cupertino	Best Western Plus Brookside Inn Milpitas Inn Hampton Inn Milpitas Larkspur Landing Milpitas Beverly Heritage Hotel TownePlace Suites Milpitas	TownePlace Suites Campbell Larkspur Landing Campbell		



**FIGURE 4-2 COMPETITIVE HOTEL FACILITIES BY CHAIN SCALE**

	<u>Menlo Park</u>	<u>Palo Alto</u>	<u>Los Altos</u>	<u>Mountain View</u>	<u>Sunnyvale</u>	<u>Santa Clara</u>
<b>Luxury</b>	Rosewood Sand Hill Stanford Park Hotel	Garden Court Hotel Hotel Keen Four Seasons Silicon Valley Dinah's Garden Hotel Creskide Inn The Clement				
<b>Upper Upscale Class</b>	Menlo Park Inn Stanford Guest House	Sheraton Hotel Palo Alto Westin Palo Alto Joie De Vivre The Epiphany Closed Hyatt Rickey's The Zen Hotel		Joie De Vivre Hotel Avante Hotel Strata	Grand Hotel JDV Wild Palms Hotel Domain Hotel Sheraton	Biltmore Hotel & Suites Joie De Vivre Avatar Hotel The Plaza Suites Hyatt Santa Clara Embassy Suites Santa Clara Marriott Santa Clara Hilton Santa Clara
<b>Upscale Class</b>	Residence Inn Palo Alto	Crowne Plaza Palo Alto Stanford Terrace Inn Homewood Suites Palo Alto	Residence Inn Los Altos Courtyard Los Altos Hilton Garden Inn Palo Alto Homewood Suites Palo Alto	Hilton Garden Inn Camino Inn & Suites Crestview Hotel Residence Inn Mountain View Hotel Azure	Residence Inn SV I Residence Inn SV II Staybridge Suites Larkspur Landing Sunnyvale aloft Sunnyvale Courtyard Sunnyvale	Hyatt House Santa Clara
<b>Upper Midscale Class</b>	Best Western Plus Riviera Red Cottage Inn & Suites	Comfort Inn Palo Alto		Hotel Zico Hotel Aria Best Western Plus Hampton Inn Suites	Best Western Plus Comfort Inn Sunnyvale Maple Tree Inn TownePlace Suites Corporate Inn Sunnyvale Country Inn & Suites	Holiday Inn Express Holiday Inn Express & Stes Mariani's Inn Woodcrest Hotel TownePlace Suites Santa Clara



## Historical Supply and Demand Data

From our research, we conclude that the major national hotel brands are widely represented in the market. Some brands are better represented than others, such as Marriott with 25 hotels (including all Starwood hotels prior to the merger); Hilton with 14 hotels (two Hiltons, two DoubleTrees, two Embassy Suites, three Hilton Garden Inns, one Curio Collection, three Hampton Inn, and two Homewood Suites); and Intercontinental, with approximately 8 hotels each ranging from full-service to select-service hotels; Hyatt has a presence with the Hyatt Santa Clara, two Hyatt Houses and a Hyatt Place, while the luxury segment has the least representation: Fairmont and Four Seasons. It is also important to note that independent hotels comprise a large category of non-branded hotels. Hotel Valencia, Toll House, Hotel Los Gatos, and Stanford Park Hotel are among the highest rated independent hotels in the Silicon Valley.

Smith Travel Research (STR) is an independent research firm that compiles and publishes data on the lodging industry, routinely used by typical hotel buyers. HLI has ordered and analyzed an STR Trend Report of historical supply and demand data for the subject property and its competitors. This information is presented in the following table, along with the market-wide occupancy, average rate, and rooms revenue per available room (RevPAR). RevPAR is calculated by multiplying occupancy by average rate and provides an indication of how well rooms revenue is being maximized.

These data are compiled by Smith Travel Research (STR), an independent research firm that compiles and publishes data on the lodging industry. The hotels in this set are in the upscale, upper-upscale, and luxury hotel segments located in Cupertino, Sunnyvale, Mountain View, Santa Clara, Los Altos, Campbell, San Jose, and Los Gatos. The proposed subject hotel will be constructed and operated to meet the standards of an upscale or upper-upscale hotel.

The select set of hotels takes into account the proximity of the hotel clusters to area demand generators, which the subject will accommodate in the future. Submarkets such as Palo Alto, Menlo Park, and Milpitas have not been included due to the distance to Cupertino's generators of hotel demand. Furthermore, the select hotels in the STR set are the newer hotels or those well-established that have undergone recent extensive renovations, ranging in size between 72 to 248 rooms and averaging 160 rooms in size.



**FIGURE 4-3 HOTELS IN THE STR COMPETITIVE SET**

<b>Hotels Included in Sample</b>	<b>Number of Rooms</b>	<b>Year Affiliated</b>	<b>Year Opened</b>
Courtyard Palo Alto Los Altos	191	Nov 2002	Nov 2002
Residence Inn Palo Alto Los Altos	156	Dec 2001	Dec 2001
Residence Inn Palo Alto Menlo Park	138	May 2015	May 2015
Residence Inn Palo Alto Mountain View	144	Oct 1985	Oct 1985
Hilton Garden Inn Mountain View	160	Oct 1999	Oct 1999
Joie De Vivre Hotel Avante	91	Apr 2000	Jun 1985
Larkspur Landing Sunnyvale	126	Dec 1998	Dec 1998
Residence Inn Sunnyvale Silicon Valley I	231	Oct 1983	Oct 1983
Residence Inn Sunnyvale Silicon Valley II	248	May 1985	May 1985
aloft Sunnyvale	85	Mar 2015	Mar 2015
The Domain Hotel	136	Dec 2014	Sep 1986
Joie De Vivre Wild Palms Hotel	205	Mar 2000	Jun 1977
Courtyard Sunnyvale Mountain View	145	Oct 2014	Oct 2014
Sheraton Hotel Sunnyvale	173	Mar 1999	Jun 1980
Crowne Plaza Palo Alto	195	Oct 1998	Jun 1962
Homewood Suites Palo Alto	138	Mar 2015	Mar 2015
Hilton Garden Inn Palo Alto	174	Mar 2015	Mar 2015
Courtyard San Jose Campbell	162	Feb 2010	Feb 2010
DoubleTree Campbell Pruneyard Plaza Hotel	169	Jul 2013	Jun 1989
Residence Inn San Jose Campbell	80	Mar 1986	Mar 1986
Larkspur Landing Campbell	117	Mar 2000	Mar 2000
aloft Hotel Cupertino	123	Jan 2013	Jan 2013
Residence Inn San Jose Cupertino	180	Jan 1900	U/C
Hilton Garden Inn Cupertino	164	Sep 1998	Sep 1998
Cupertino Inn	128	Jun 1987	Jun 1987
Curio Collection Juniper Hotel Cupertino	224	Jun 2015	Jul 2002
Courtyard San Jose Cupertino	149	May 1988	May 1988
Toll House Hotel	115	Jun 1983	Jun 1983
Hotel Los Gatos	72	Apr 2011	Nov 2002
Springhill Suites San Jose Airport	145	Jun 2015	Jun 2015
Residence Inn San Jose Airport	176	Jun 2015	Jun 2015
AC Hotels by Marriott San Jose Downtown	210	Jan 2017	Jan 2017
Westin San Jose	171	Jul 2015	Jun 1926
Hyatt Place San Jose Downtown	236	Feb 2012	Sep 1974
Valencia Group Hotel Valencia Santana Row	215	Jul 2003	Jul 2003
aloft San Jose Cupertino	81	Aug 2016	May 2001
<b>Total</b>	<b>5,653</b>		

The following table illustrates the market trends for the upscale, upper-upscale, and luxury hotel segments, as defined in the previous paragraph.

**FIGURE 4-4 HISTORICAL SUPPLY AND DEMAND TRENDS**

<b>Year</b>	<b>Average Daily Room Count</b>	<b>Available Room Nights</b>	<b>Change</b>	<b>Occupied Room Nights</b>	<b>Change</b>	<b>Occupancy</b>	<b>Average Daily Rate</b>	<b>Change</b>	<b>RevPAR</b>	<b>Change</b>
2011	4,098	1,495,831	—	1,114,330	—	74.5 %	\$143.15	—	\$106.64	—
2012	4,095	1,494,830	(0.1) %	1,169,455	4.9 %	78.2	154.54	8.0 %	120.90	13.4 %
2013	4,219	1,539,845	3.0	1,225,558	4.8	79.6	168.99	9.4	134.50	11.2
2014	4,258	1,554,255	0.9	1,250,889	2.1	80.5	189.12	11.9	152.21	13.2
2015	4,985	1,819,646	17.1	1,437,910	15.0	79.0	216.50	14.5	171.08	12.4
2016	5,240	1,912,438	5.1	1,524,952	6.1	79.7	225.30	4.1	179.65	5.0
Average Annual Compounded Change:										
2011-2016			5.0 %		6.5 %			9.5 %		11.0 %
<b><u>Year-to-Date Through May</u></b>										
2016	5,231	789,908	—	614,598	—	77.8 %	\$229.42	—	\$178.51	—
2017	5,473	826,423	4.6 %	659,300	7.3 %	79.8	232.32	1.3 %	185.34	3.8 %





The subject market experienced a notable increase in supply in the past four years, adding 1,334 rooms to the market with the opening of the aloft Hotel Cupertino in January 2013; the Courtyard Sunnyvale Mountain View in October 2014; the aloft Sunnyvale, Homewood Suites Palo Alto, and Hilton Garden Inn Palo Alto in March 2015; the Residence Inn Palo Alto Menlo Park in May 2015; the Springhill Suites and Residence Inn San Jose Airport in June 2015; and the AC Hotels by Marriott San Jose Downtown in January 2015. Also three notable conversions occurred in the past two years: Juniper Hotel conversion of the Cypress Inn in June 2015, the Westin Saint Clare from its independent status in July 2015, and the aloft San Jose from the Moorpark Hotel in August 2016.

The market has quickly absorbed this supply increase and continued to register high occupancy levels in the 80% range for the past four years. In the year-to-date period through May 2017, occupied room nights continue to grow at robust rates, increasing by 7.3% compared to the same period last year. Market-wide average rate registered a double-digit increase in 2014 and 2015, but began moderating in 2016 and the year-to-date period through May 2017. With sustained levels of peak lodging demand in the market, area hoteliers will continue to evidence the sustained favorable operating performance of the market, with further increases in occupancy and average rate, albeit, at moderate growth rates. Hoteliers in the market reported that the continued increase in average rate is attributed to the growth in mid-week commercial lodging demand from corporate business travelers.

## Seasonality

Monthly occupancy and average rate trends are presented in the following tables.

**FIGURE 4-5 MONTHLY OCCUPANCY TRENDS**

Month	2011	2012	2013	2014	2015	2016	Year-to-Date Through May	
							2016	2017
January	66.2 %	66.0 %	67.4 %	70.5 %	70.7 %	69.1 %	69.1 %	72.6 %
February	72.6	76.9	78.6	81.1	82.4	77.2	77.2	81.4
March	75.5	76.8	75.1	78.2	78.5	80.2	80.2	83.6
April	72.9	77.5	82.6	79.6	78.0	79.7	79.7	76.2
May	78.2	82.6	83.1	83.7	77.5	82.8	82.8	85.1
June	84.2	87.9	87.6	87.5	83.6	87.3	—	—
July	75.9	81.8	85.7	86.5	83.4	83.2	—	—
August	80.9	84.5	86.1	87.5	86.0	84.7	—	—
September	77.5	82.2	83.9	86.6	84.3	84.2	—	—
October	80.3	85.0	87.8	84.5	84.4	84.8	—	—
November	73.1	74.6	73.7	76.0	76.4	77.9	—	—
December	56.8	63.1	63.8	65.1	62.5	65.9	—	—
<b>Annual Occupancy</b>	<b>74.5 %</b>	<b>78.2 %</b>	<b>79.6 %</b>	<b>80.5 %</b>	<b>79.0 %</b>	<b>79.7 %</b>	— 	—
<b>Year-to-Date Through May</b>	<b>73.1 %</b>	<b>75.9 %</b>	<b>77.3 %</b>	<b>78.5 %</b>	<b>77.4 %</b>	<b>77.8 %</b>	77.8 % 	<b>79.8 %</b>

Source: STR Global

**FIGURE 4-6 MONTHLY AVERAGE RATE TRENDS**

Month	2011	2012	2013	2014	2015	2016	Year-to-Date Through May	
							2016	2017
January	\$139.66	\$155.47	\$165.48	\$183.69	\$205.97	\$229.69	\$229.69	\$224.33
February	142.25	157.01	169.69	187.75	214.51	248.02	248.02	235.46
March	143.46	154.33	166.71	186.44	217.13	227.81	227.81	238.61
April	140.32	153.98	169.10	185.25	214.54	219.46	219.46	220.98
May	143.11	154.45	166.40	182.71	212.34	224.39	224.39	240.06
June	144.13	155.45	170.06	190.84	226.10	229.79	—	—
July	138.75	152.65	167.38	189.57	215.81	217.16	—	—
August	144.83	152.14	167.64	188.99	217.73	226.84	—	—
September	144.96	154.05	172.80	198.45	224.83	228.74	—	—
October	148.93	162.33	178.48	201.44	227.64	237.41	—	—
November	146.77	155.61	170.40	190.84	217.17	220.60	—	—
December	138.41	145.21	160.94	179.67	194.77	189.83	—	—
<b>Annual Average Rate</b>	<b>\$143.15</b>	<b>\$154.54</b>	<b>\$168.99</b>	<b>\$189.12</b>	<b>\$216.50</b>	<b>\$225.30</b>	—	—
<b>Year-to-Date Through May</b>	<b>\$141.83</b>	<b>\$154.99</b>	<b>\$167.49</b>	<b>\$185.13</b>	<b>\$213.10</b>	<b>\$229.42</b>	<b>\$229.42</b>	<b>\$232.32</b>

Source: STR Global





The illustrated monthly occupancy and average rates patterns reflect important seasonal characteristics. The tech industry in Silicon Valley supports occupancy levels for many months in excess of 80%. Business travel is strong Monday through Thursday, with many operators reporting sold-out nights on Tuesday and Wednesday. Due to the transient commercial nature of accommodated demand, market-wide occupancy is strong throughout the year from February to October and declines during the holiday months. Average rate follows a similar pattern. We have reviewed these trends in developing our forthcoming forecast of market-wide demand.

### **Patterns of Demand**

A review of the trends in occupancy, average rate, and RevPAR per day of the week over the past fiscal year provides some insight into the impact that the current economic conditions have had on the competitive lodging market. The data, as provided by Smith Travel Research, are illustrated in the following table.



**FIGURE 4-7 OCCUPANCY, AVERAGE RATE AND REVPAR BY DAY OF WEEK**

**Occupancy**

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Jun - 16	75.1 %	93.9 %	97.0 %	92.5 %	82.3 %	83.9 %	86.3 %	87.3 %
Jul - 16	72.0	81.2	87.5	90.1	85.5	81.4	87.1	83.2
Aug - 16	67.9	85.4	92.7	90.6	81.7	81.7	89.0	84.7
Sep - 16	70.1	85.7	95.1	94.8	81.0	78.3	86.4	84.2
Oct - 16	67.9	87.1	98.5	98.0	85.7	77.3	83.3	84.8
Nov - 16	62.9	80.2	84.9	87.7	83.3	71.2	71.2	77.9
Dec - 16	57.4	72.2	74.0	71.4	66.4	58.9	63.1	65.9
Jan - 17	55.9	75.3	87.2	87.8	76.8	60.7	64.0	72.6
Feb - 17	66.7	87.1	95.7	95.2	84.3	69.6	71.1	81.4
Mar - 17	67.0	91.6	97.3	95.7	85.8	73.3	73.6	83.6
Apr - 17	57.7	82.8	92.6	90.8	76.6	69.8	69.6	76.2
May - 17	73.6	85.1	94.7	94.8	85.6	77.1	80.2	85.1
<b>Average</b>	<b>65.9 %</b>	<b>83.9 %</b>	<b>91.3 %</b>	<b>91.0 %</b>	<b>81.1 %</b>	<b>73.5 %</b>	<b>76.9 %</b>	<b>80.5 %</b>

Source: Smith Travel Research

**Average Rate**

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Jun - 16	\$212.79	\$265.69	\$276.84	\$267.14	\$223.04	\$172.51	\$166.33	\$229.79
Jul - 16	199.01	250.98	267.08	262.99	225.73	170.71	165.54	217.16
Aug - 16	210.54	254.56	264.47	259.10	225.59	170.58	168.81	226.84
Sep - 16	205.63	263.02	277.86	275.09	234.31	172.67	165.59	228.74
Oct - 16	216.51	270.55	287.64	283.98	241.97	178.07	168.75	237.41
Nov - 16	194.40	245.32	262.40	263.17	217.89	159.59	152.23	220.60
Dec - 16	175.61	216.93	226.55	221.71	195.90	147.73	144.99	189.83
Jan - 17	197.12	256.81	266.94	258.53	220.16	159.77	152.89	224.33
Feb - 17	212.57	266.80	285.19	282.48	234.41	164.32	159.45	235.46
Mar - 17	219.21	274.11	290.07	284.91	234.98	167.65	162.42	238.61
Apr - 17	196.21	257.28	274.67	270.61	219.45	157.56	150.19	220.98
May - 17	208.86	267.39	284.67	281.68	240.59	175.89	166.30	240.06
<b>Average</b>	<b>\$204.62</b>	<b>\$258.71</b>	<b>\$273.05</b>	<b>\$269.19</b>	<b>\$226.68</b>	<b>\$167.03</b>	<b>\$160.87</b>	<b>\$226.63</b>

Source: Smith Travel Research

In most markets, business travel, including individual commercial travelers and corporate groups, is the predominant source of demand on Monday through Thursday nights. Leisure travelers and non-business-related groups generate a majority of demand on Friday and Saturday nights. As evidenced in the preceding table, market-wide occupancy levels registered peak levels between Monday and Thursday nights, which suggests the strong presence of commercial lodging demand and corporate travel in the market. In contrast, the weekend periods clearly register a lower overall



occupancy level, which also evidences the market’s challenges in filling hotel rooms during these periods with group and leisure lodging demand.

## **SUPPLY**

The hotels that will compete directly with the subject hotel are in the upscale, upper-upscale, and luxury segment class and were chosen based on an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of each area hotel, as well as the comments of management representatives. We have also taken into account the proposed subject property’s upscale standards and amenities and the higher rated demand it will cater to.

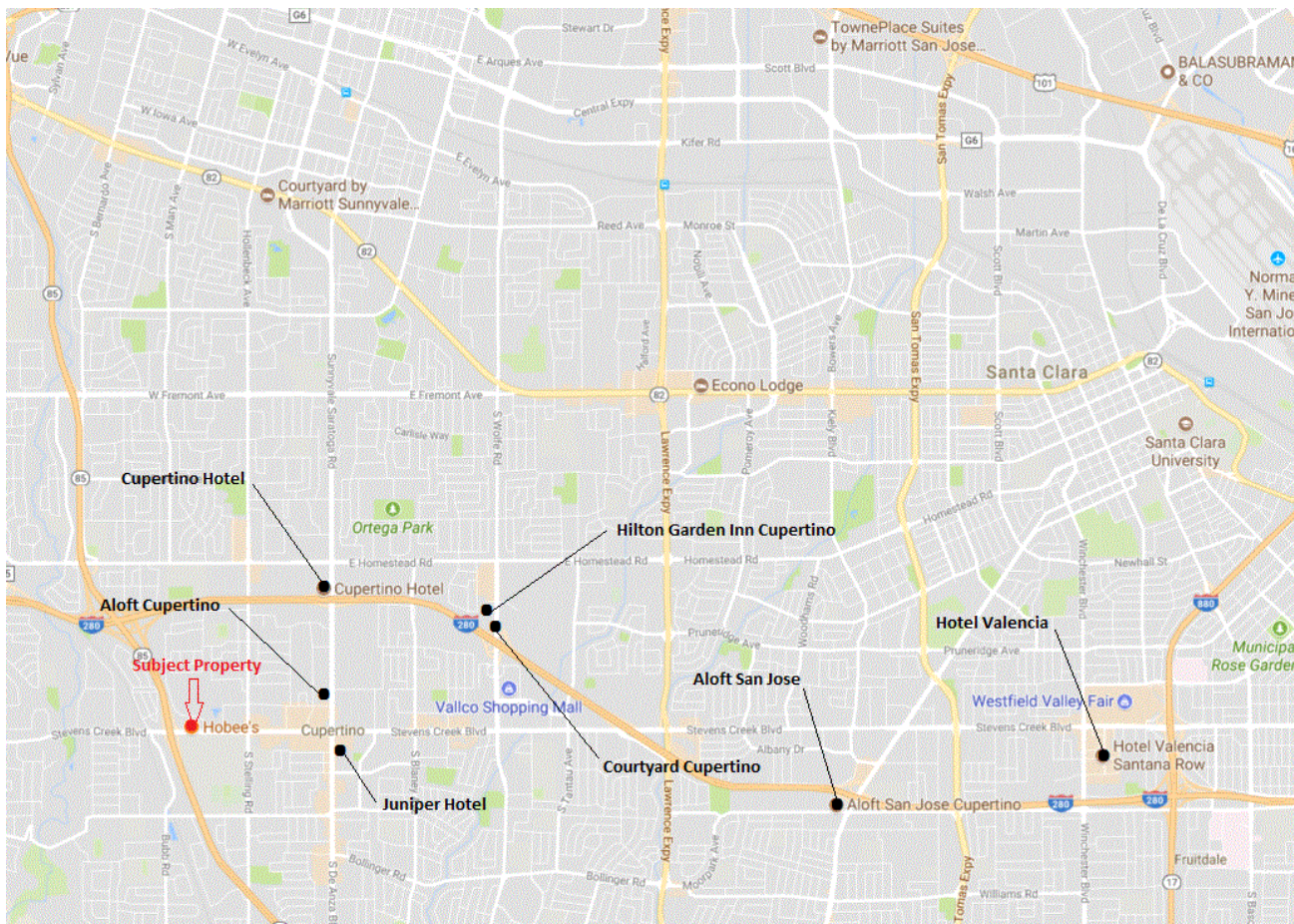
The following table summarizes the important characteristics of the competitors. This information was compiled from personal interviews, inspections, lodging directories, and our in-house library of data.

**FIGURE 4-8 DIRECT COMPETITORS SUMMARY OF FACILITIES, AMENITIES, AND OPERATING DATA**

Name	Hilton Garden Inn						
	Juniper Hotel	Aloft Cupertino	Courtyard Cupertino	Cupertino	Aloft San Jose	Hotel Valencia	Cupertino Inn
Location	Cupertino, CA	Cupertino, CA	Cupertino, CA	Cupertino, CA	San Jose, CA	San Jose, CA	Cupertino, CA
Affiliation	Hilton	Marriott	Marriott	Hilton	Marriott	Independent	Independent
Rooms	224	123	149	164	81	212	128
Meeting Rooms	6	3	2	3	1	4	3
Meeting Space (SF)	4,897	1,101	1,248	1,650	1,100	3,804	1,720
(SF) Per Room	21.9	9.0	8.4	10.1	13.6	17.9	13.4
Std Guestroom Size	350	325	350	350	335	350	325
One Bdrm Suite Size	600	500	500	500	380	500	450
F&B Outlets	Parkview Kitchen & Spirits, Room Service	Grab-and-Go café "re:fuel" and w xyz bar	The Bistro	Garden Grille & Bar	"re:fuel" and w xyz bar	Oveja Negra, Terrace, Vbar, Cielo	Room service
Amenities & Services	Business Center, concierge Services, an exercise room	An outdoor pool, an exercise room, and a lobby workstations	An outdoor pool, an indoor whirlpool, an exercise room, a business center, a market pantry, a guest laundry facility	An outdoor pool and whirlpool, an exercise room, a business center, a guest laundry facility	An outdoor pool and whirlpool, a fitness center, a business center, free WiFi	An outdoor pool and whirlpool, an exercise room, a spa, and a business center	An outdoor pool, a business center, happy house, free WiFi, complimentary breakfast
Location Types	Suburban	Suburban	Suburban	Suburban	Suburban	Suburban	Suburban
Parking	Valet and Self Park	Self Park	Self Park	Self Park	Self Park	Valet and Self Park	Self Park
Occupancy Estimate	<u>2016</u> 80%	<u>2016</u> 80%	<u>2016</u> 82%	<u>2016</u> 83%	<u>2016</u> 80%	<u>2016</u> 82%	<u>2016</u> 81%
Average Rate Estimate	\$260	\$230	\$215	\$210	\$190	\$305	\$200

The following map illustrates the locations of the proposed subject hotel and its future competitors.

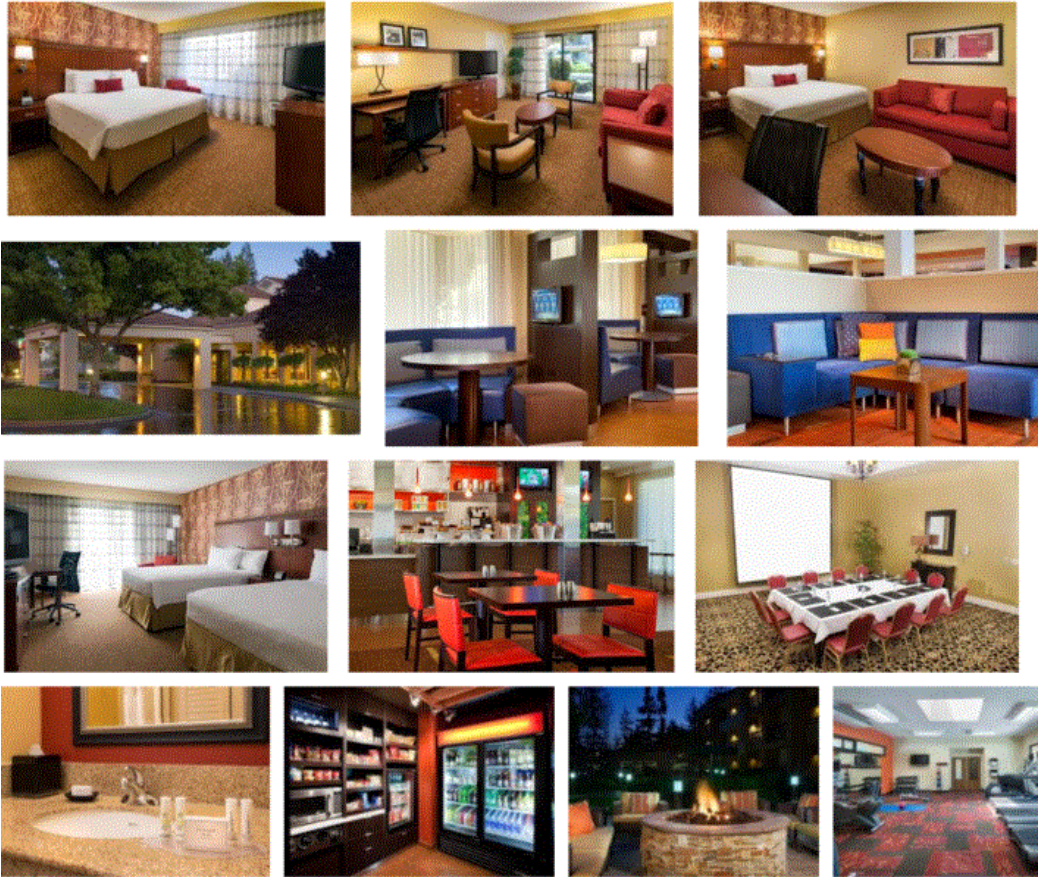
## MAP OF COMPETITION



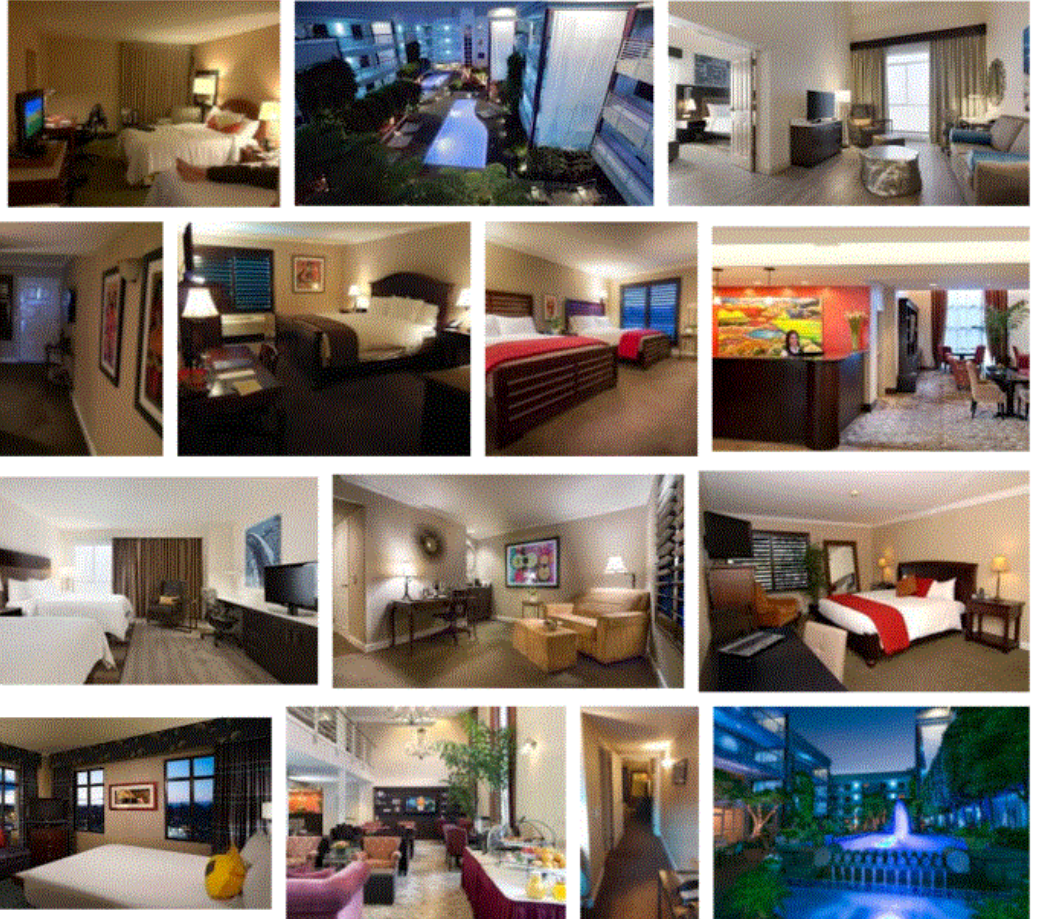
The following photo gallery of competitive hotels were captured on the internet. Unless specified otherwise, we do not make claims or comments regarding the physical condition of the properties.



## COURTYARD BY MARRIOTT SAN JOSE CUPERTINO

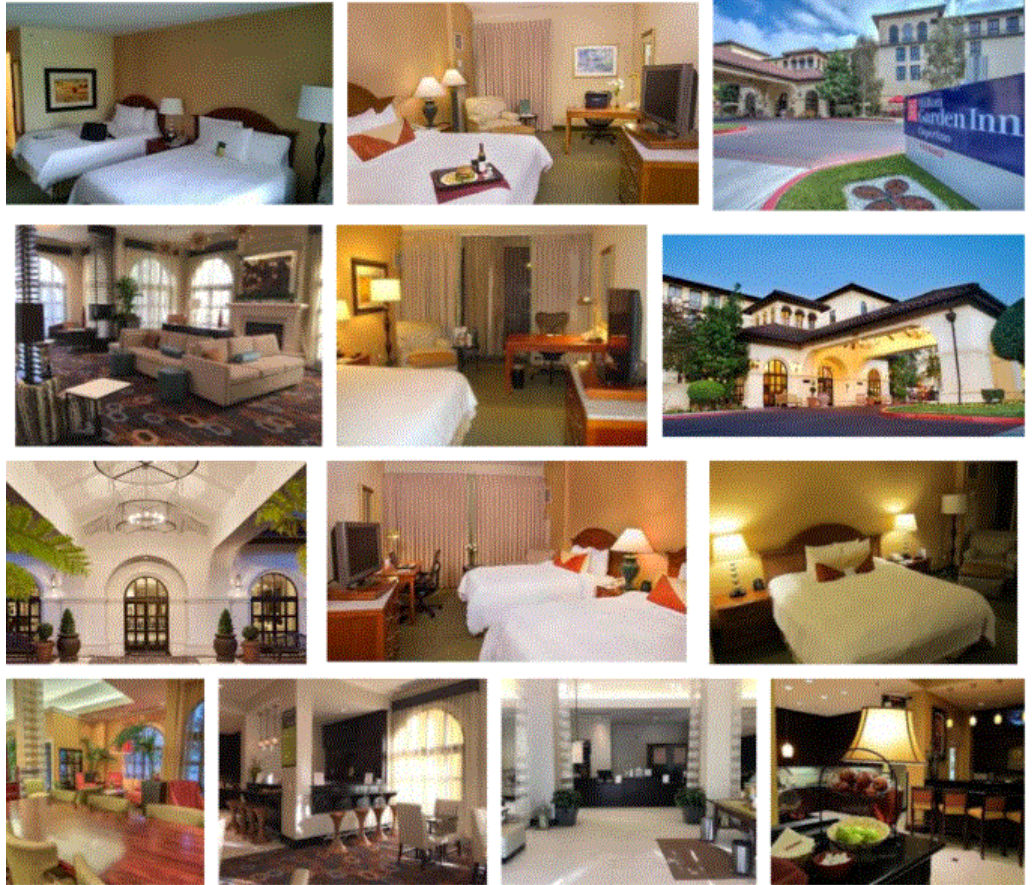


## CUPERTINO INN

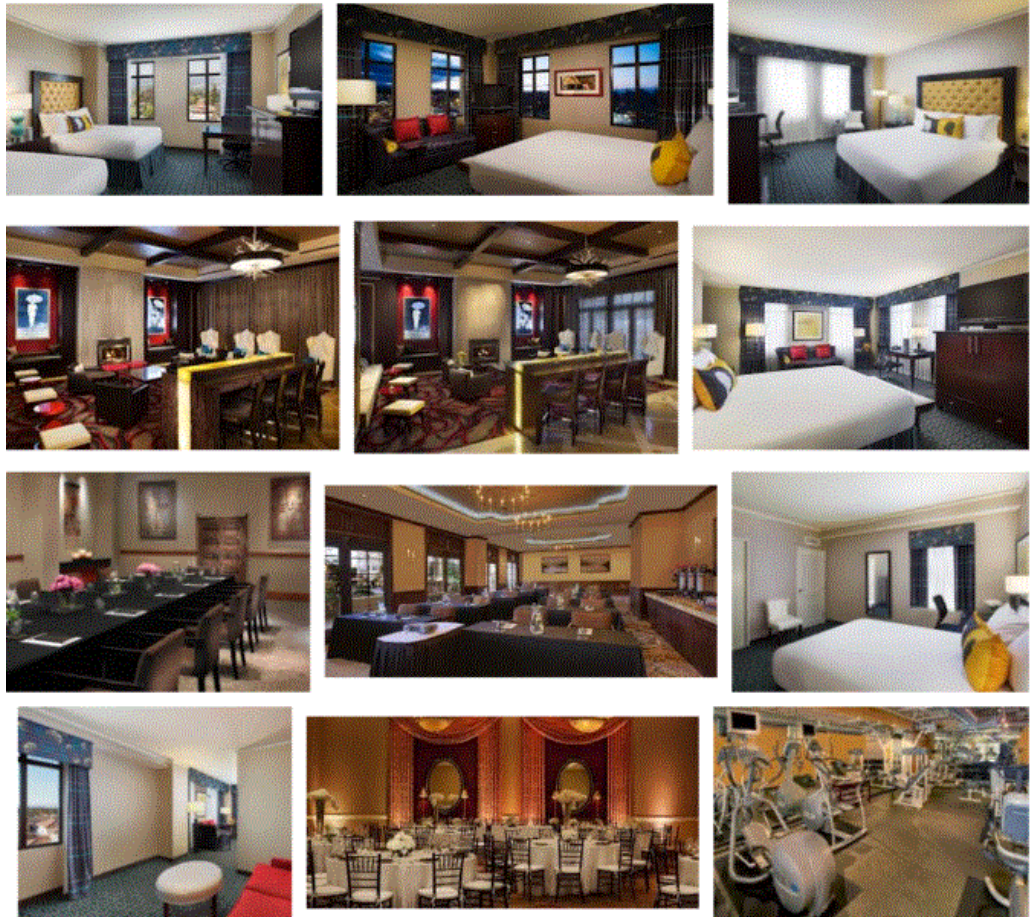




## HILTON GARDEN INN CUPERTINO

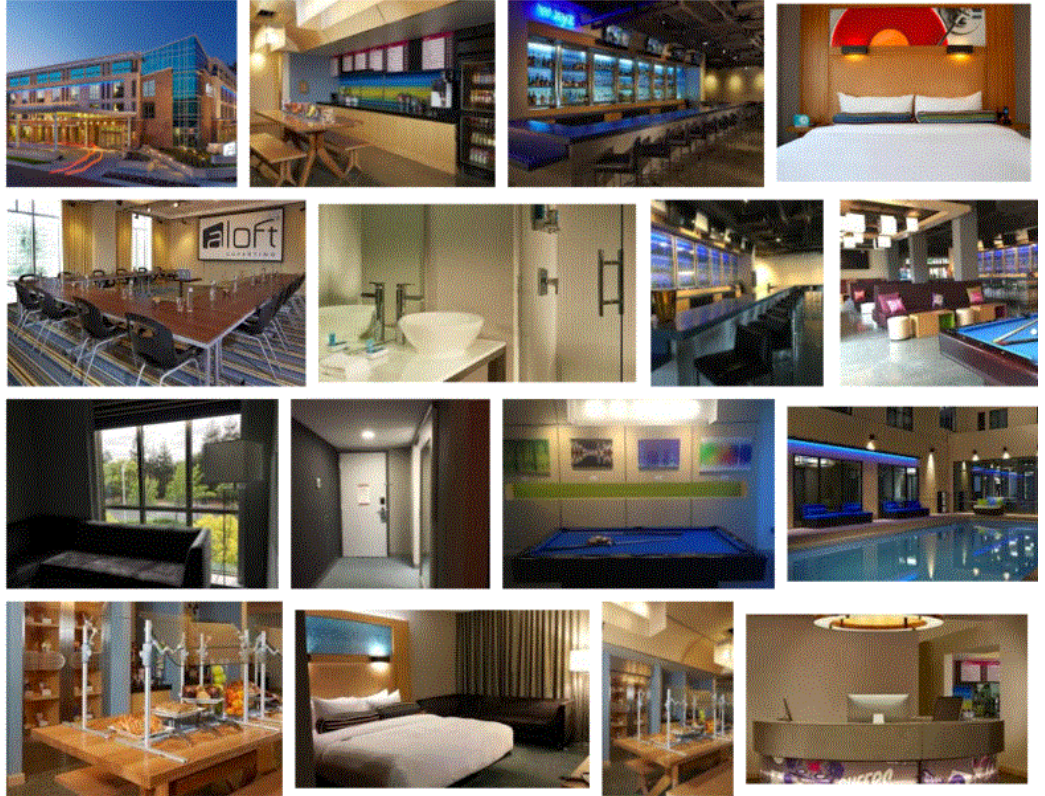


## JUNIPER HOTEL CUPERTINO

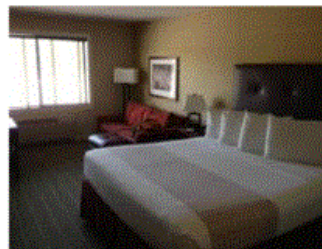
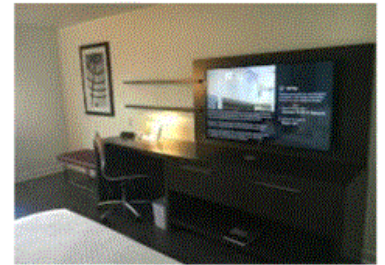
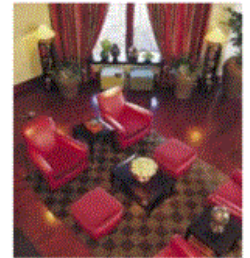
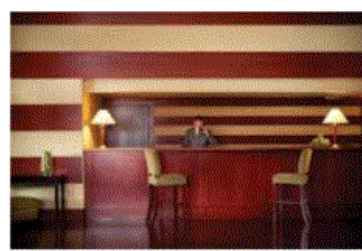
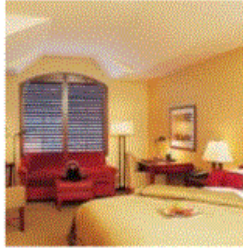




## ALOFT CUPERTINO

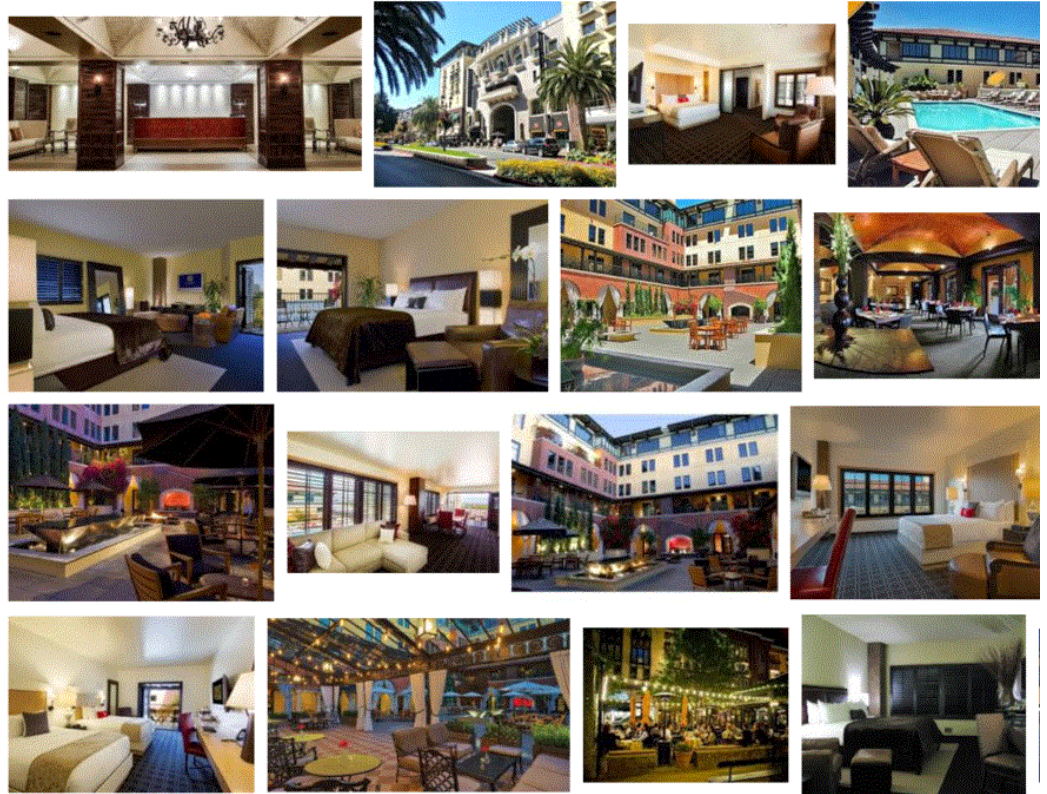


## ALOFT SAN JOSE





## HOTEL VALENCIA SAN JOSE





## Supply Changes

It is important to consider any new hotels that may have an impact on the overall market. According to the local planning office, and our research and inspection (as applicable), new supply expected to be competitive within the subject property's competitive submarket is outlined in the following table. Note that new supply has been weighted to account for varying competitive levels.

**FIGURE 4-9 NEW SUPPLY**

Proposed Property	Number of	Total Competitive Level	Weighted Room Count	Estimated Opening Date	Developer	Development Stage
Hyatt House (Vallco)	148	75 %	111	December 1, 2018	Cupertino Property Development LLC	Broke Ground
Residence Inn Cupertino	180	75	135	August 1, 2017	SandHill Properties	Under Construction
Kimco Cupertino Village Hotel	185	50	93	June 1, 2019	Kimco Realty	Early Development
Cupertino Hotel (Goodyear Tires)	156	50	78	September 1, 2019	De Anza Properties	Early Development
AC Hotel Sunnyvale (T2)	187	25	47	June 1, 2018	T2 Development	Under Construction
RI Silicon Valley I and II Expansion	188	25	47	July 1, 2019	DLR group and Marriott	Approved
T2 Dual Brand (150 AC and 200 Autograph)	350	25	88	May 1, 2020	T2 Development	Approved
Marina Plaza Hotel Cupertino	122	0	0	May 1, 2021	Dahlin	Approved
<b>Totals/Averages</b>	<b>1,691</b>		<b>773</b>			

The **Hyatt House** at the proposed Vallco Shopping Center is located two miles away from the subject property within the city of Cupertino. Plans for the proposed hotel include a full-service restaurant and bar, 2,480 square feet of meeting space, and 156 parking spots. Construction started in December 2016 and the hotel is anticipated to open in December 2018. However, because of its extended-stay orientation, this property has been weighted 75% competitive.

The **Residence Inn Cupertino** will be opening in Main Street Cupertino in August 2017. The Main Street project consists of 130,500 square feet of retail space, a five-level garage, 260,000 square feet of office space, and a residential building. Due to its extended-stay orientation, the proposed hotel was weighted at 75% competitive with the subject.

The **Cupertino Village Boutique Hotel** located at 10765-10801 North Wolfe Road entails the demolition of two retail buildings (approximately 13,500 square feet) located in the Cupertino Village Shopping Center to develop a new full-service boutique hotel with 185 rooms. Due to the unapproved and speculative nature of the project, the proposed hotel was weighted at 50% competitive with the subject.

The **Cupertino Hotel (Goodyear Tires Site)** located at 10391 North De Anza Boulevard entails the demolition of an existing 8,500 square feet commercial building (Goodyear Tires) to develop a five-story, 156-room hotel with underground parking, lounge, and



conference facilities. Due to the unapproved and speculative nature of the project, the proposed hotel was weighted at 50% competitive with the subject.

The **AC Hotel Sunnyvale** located at 725 S. Fair Oaks Ave in Sunnyvale is currently under construction and expected to be completed in June 2018. This lifestyle hotel will offer 187 rooms, 150 parking stalls in a subterranean parking structure, local flora and landscape; and energy efficient features high efficiency HVAC system, use of natural lighting, energy-efficient light bulbs, motion-sensored and timed light switches in all offices, low flow toilets, water faucets, as well as water efficient commercial dishwashers and laundry washing machines. The hotel is being developed by T2 Development. Due to the distance from the subject, the proposed hotel was weighted at 25% competitive with the subject.

The **Residence Inn Silicon Valley I** and **Residence Inn Silicon Valley II** are both undergoing an expansion of guestrooms. Redevelopment of the Residence Inn Silicon Valley I, a 232-room hotel, entails a partial demolition of 32 rooms and construction of a new 7-story hotel with 111 guest rooms (79 net new rooms) including 32 structured parking spaces and associated site modifications. Residence Inn Silicon Valley II entails a redevelopment resulting in a total 357 guest rooms (originally 248 rooms). The new 7-story building will contain 133 rooms (24 of the 248 existing guest rooms are to be demolished, resulting in a net increase of 109 rooms). Note Residence Inn Silicon Valley I is owned by DLP Group, while Residence Inn Silicon Valley II is owned by Marriott. Due to the distance from the subject and extended-stay orientation, the proposed additional units were weighted at 25% competitive with the subject.

T2 Development has been approved for another project in Sunnyvale, which entails two new hotels: one 8-story, 200-room **Autograph Collection** and one 8-story, 150-room **AC Hotel** with a four-level, above grade parking structure. Due to the distance from the subject and speculative nature, the proposed hotels were weighted at 25% competitive with the subject.

Several other proposed hotel projects are in various stages of development in Sunnyvale; however, due to the speculative nature of the developments and market orientation, we have not considered these projects into our analysis.

The **Marina Plaza Development** in Cupertino entails the redevelopment of commercial space into a mixed-use development including 23,000 square feet of retail and restaurant space, a 122-room hotel, and 188 residential units. City officials confirmed that while the development and uses have been approved, no actual plans for the hotel have been submitted; therefore, we have not considered this project into our analysis.





While we have taken reasonable steps to investigate proposed hotel projects and their status, because of the nature of real estate development, it is impossible to determine with certainty every hotel that will be opened in the future, or what their marketing strategies and effect in the market will be. Depending on the outcome of current and future projects, the future operating potential of the subject property may be positively or negatively affected. Future improvement in market conditions will raise the risk of increased competition. Our forthcoming forecast of stabilized occupancy and average rate is intended to reflect such risk.

### Supply Conclusion

We have identified various properties that are competitive to some degree with the subject property. We have also investigated potential increases in competitive supply in the Cupertino and Sunnyvale submarkets. The proposed subject will operate in a dynamic market of exclusive upscale hotels and is expected to command above average rates due to its new condition upon opening. Next, we will present our forecast for demand change, using the historical supply data presented as a starting point.

### Demand Analysis Using Market Segmentation

For the purpose of demand analysis, the select Silicon Valley market is divided into individual segments based on the nature of travel. Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the 2016 distribution of accommodated-room-night demand as follows.

**FIGURE 4-10 ACCOMMODATED ROOM-NIGHT DEMAND**

Market Segment	Marketwide	
	Accommodated Demand	Percentage of Total
Commercial	1,143,811	75 %
Meeting and Group	228,762	15
Leisure	152,508	10
<b>Total</b>	<b>1,525,081</b>	<b>100 %</b>

The market's demand mix comprises commercial demand, with this segment representing the majority of traveling guests at approximately 75% of the overall accommodated room nights in this Silicon Valley market. The remaining portion comprises meeting and group at 15%, with the final portion leisure in nature, reflecting 10%.

Similar to the market, it is anticipated that the subject market segmentation will be heavily weighted toward commercial demand. The subject will also accommodate meeting and group demand in a similar manner relative to the market. Furthermore, its



location proximate to Santana Row, Levi's Stadium, SAP Center and other leisure attractions relative to its competitors will allow it to capture leisure demand.

Using the distribution of accommodated hotel demand as a starting point, we will analyze the characteristics of each market segment in an effort to determine future trends in room-night demand.

### **Commercial Segment**

Commercial demand consists mainly of individual businesspeople passing through the subject market or visiting area businesses, in addition to high-volume corporate accounts generated by local firms. Brand loyalty (particularly frequent-traveler programs), as well as location and convenience with respect to businesses and amenities, influence lodging choices in this segment. Companies typically designate hotels as "preferred" accommodations in return for more favorable rates, which are discounted in proportion to the number of room nights produced by a commercial client. Commercial demand is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday night. It is relatively constant throughout the year, with marginal declines in late December and during other holiday periods.

Commercial travel is relatively constant throughout the year, although some declines are noticeable in late December and during other holiday periods. Corporate travel in the market is generated by a variety of corporation, including Apple, Google, Cisco, Oracle, Symantec, Agilent, Panasonic, and other local firms. As many of these high-tech companies relocate and expand operations (Apple in Cupertino), demand growth should continue. In the near term, the outlook for commercial demand is positive as technology companies continue to hire, expand office space, and increase travel budgets. The long term outlook is also positive as tech companies establish a strong demand base in the market.

### **Meeting and Group Segment**

The meeting and group market includes meetings, seminars, conventions, trade association shows, and similar gatherings of ten or more people. Peak convention demand typically occurs in the spring and fall. Although there are numerous classifications within the meeting and group segment, the primary categories considered in this analysis are corporate groups, associations, and SMERFE (social, military, ethnic, religious, fraternal, and educational) groups. Corporate groups typically meet during the business week, most commonly in the spring and fall months. These groups tend to be the most profitable for hotels, as they typically pay higher rates and usually generate ancillary revenues including food and beverage and/or banquet revenue. SMERFE groups are typically price-sensitive and tend to meet on weekends and during the summer months or holiday season, when greater discounts are usually available; these groups generate limited ancillary revenues. Association demand is



generally divided on a geographical basis, with national, regional, and state associations representing the most common sources. Professional associations and/or those supported by members' employers often meet on weekdays, while other associations prefer to hold events on weekends. The profile and revenue potential of associations varies depending on the group and the purpose of the meeting or event.

Factors related to group demand considered in our development of growth rates for this segment include the presence of numerous local corporate entities; the high concentration of high-tech firms, such as Apple and Google, is expected to continue to bolster group room-block needs locally. Additionally, a small portion of meeting and group demand in the market is associated with SMERF groups, family reunions, and other more price-sensitive groups during the weekends and summer months. We expect modest growth to occur in the near term in this segment and a more stable long term outlook as the economy stabilizes.

### **Leisure Segment**

Leisure demand consists of individuals and families spending time in an area or passing through en route to other destinations. Travel purposes include sightseeing, recreation, or visiting friends and relatives. Leisure demand also includes room nights booked through Internet sites such as Expedia, Hotels.com, and Priceline; however, leisure may not be the purpose of the stay. This demand may also include business travelers and group and convention attendees who use these channels to take advantage of any discounts that may be available on these sites. Leisure demand is strongest Friday and Saturday nights, and all week during holiday periods and the summer months. These peak periods represent the inverse of commercial visitation trends, underscoring the stabilizing effect of capturing weekend and summer tourist travel. Future leisure demand is related to the overall economic health of the region and the nation. Trends showing changes in state and regional unemployment and disposable personal income correlate strongly with leisure travel levels.

The market does not offer significant leisure attractions. Most leisure demand occurs on weekends and during holiday periods relative to family trips. Some demand is generated by events at the SAP Center, Santa Row, and Levi's Stadium. We expect the leisure segment to grow modestly going forward.

### **Conclusion**

The purpose of segmenting the lodging market is to define each major type of demand, identify customer characteristics, and estimate future growth trends. Starting with an analysis of the local area, three segments were defined as representing the subject property's lodging market. Various types of economic and demographic data were then evaluated to determine their propensity to reflect changes in hotel demand. Based on this procedure, we forecast the following annual growth rates for each demand segment.

**FIGURE 4-11 AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES**

Market Segment	Annual Growth Rate						
	2017	2018	2019	2020	2021	2022	2023
Commercial	5.0 %	2.0 %	1.0 %	2.0 %	1.0 %	0.0 %	0.0 %
Meeting and Group	5.0	2.0	1.0	1.0	1.0	0.0	0.0
Leisure	3.0	2.0	1.0	1.0	1.0	0.0	0.0
<b>Base Demand Growth</b>	<b>4.8 %</b>	<b>2.0 %</b>	<b>1.0 %</b>	<b>1.8 %</b>	<b>1.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>

Marketwide demand growth in 2017 is expected to follow a trend similar to that reflected in the year-to-date data through May 2017 (7.3% compared to the same period last year) moderating in the last few months of the year. Demand is expected to continue to increase at a more moderate pace going forward. As new supply enters the market and occupancy reaches capacity, growth rates are expected to moderate to stabilization.

### Induced Demand

Induced demand represents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can result in induced demand include the opening of a new manufacturing plant, the expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities. The following table summarizes our estimate of induced demand.

**FIGURE 4-12 INDUCED DEMAND CALCULATION**

Market Segment	Induced Room Nights				
	2017	2018	2019	2020	2021
Commercial	2,483	6,686	13,162	14,739	14,739
Meeting and Group	497	1,379	4,387	4,479	4,479
Leisure	331	881	2,527	2,619	2,619
<b>Total</b>	<b>3,311</b>	<b>8,946</b>	<b>20,076</b>	<b>21,837</b>	<b>21,837</b>

The near term opening of the Hyatt House, Residence Inn Cupertino, and AC Hotel Sunnyvale are expected to induce lodging demand to the market. Furthermore, in 2019, when the remaining high-quality hotel projects in this study start to open its doors, induced demand will more than double its size. The opening of high-quality, upscale properties will add new product that is either affiliated with a strong national chain or



### **Accommodated Demand and Market- wide Occupancy**

uniquely position as an independent property. The Marriott and Hyatt reservation systems and loyalty programs are expected to induce additional demand in all segments, while independent hotels will be uniquely positioned to cater to sophisticated tech travelers, as well as leisure and meeting and group demand. Accordingly, we have incorporated 21,800 annual room nights (rounded) into our analysis.

Based upon a review of the market dynamics in the subject property's competitive environment, we have forecast growth rates for each market segment. Using the calculated potential demand for the market, we have determined market-wide accommodated demand based on the inherent limitations of demand fluctuations and other factors in the market area.

The following table details our projection of lodging demand growth for the subject market, including the total number of occupied room nights and any residual unaccommodated demand in the market.



**FIGURE 4-13 ACCOMMODATED DEMAND**

	2017	2018	2019	2020	2021	2022	2023
<b>Commercial</b>							
Base Demand	1,201,001	1,225,021	1,237,272	1,262,017	1,274,637	1,274,637	1,274,637
Induced Demand	2,483	6,686	13,162	14,739	14,739	14,739	14,739
Total Demand	1,203,485	1,231,707	1,250,434	1,276,756	1,289,376	1,289,376	1,289,376
Growth Rate	5.2 %	2.3 %	1.5 %	2.1 %	1.0 %	0.0 %	0.0 %
<b>Meeting and Group</b>							
Base Demand	240,200	245,004	247,454	249,929	252,428	252,428	252,428
Induced Demand	497	1,379	4,387	4,479	4,479	4,479	4,479
Total Demand	240,697	246,383	251,842	254,408	256,907	256,907	256,907
Growth Rate	5.2 %	2.4 %	2.2 %	1.0 %	1.0 %	0.0 %	0.0 %
<b>Leisure</b>							
Base Demand	157,083	160,225	161,827	163,446	165,080	165,080	165,080
Induced Demand	331	881	2,527	2,619	2,619	2,619	2,619
Total Demand	157,414	161,106	164,354	166,064	167,699	167,699	167,699
Growth Rate	3.2 %	2.3 %	2.0 %	1.0 %	1.0 %	0.0 %	0.0 %
<b>Totals</b>							
Base Demand	1,598,285	1,630,251	1,646,553	1,675,392	1,692,145	1,692,145	1,692,145
Induced Demand	3,311	8,946	20,076	21,837	21,837	21,837	21,837
Total Demand	1,601,596	1,639,196	1,666,630	1,697,229	1,713,983	1,713,983	1,713,983
Overall Demand Growth	3.2 %	2.5 %	2.9 %	2.3 %	1.0 %	0.0 %	0.0 %
<b>Market Mix</b>							
Commercial	75.1 %	75.1 %	75.0 %	75.2 %	75.2 %	75.2 %	75.2 %
Meeting and Group	15.0	15.0	15.1	15.0	15.0	15.0	15.0
Leisure	9.8	9.8	9.9	9.8	9.8	9.8	9.8
Existing Hotel Supply	5,251	5,253	5,272	5,240	5,240	5,240	5,240
<b>Proposed Hotels</b>							
Westport Cupertino <sup>1</sup>			59	175	175	175	175
Hyatt House (Vallco) <sup>2</sup>		10	111	111	111	111	111
Residence Inn Cupertino <sup>3</sup>	57	135	135	135	135	135	135
Kimco Cupertino Village Hotel <sup>4</sup>			54	93	93	93	93
Cupertino Hotel (Goodyear Tires) <sup>5</sup>			26	78	78	78	78
AC Hotel Sunnyvale (T2) <sup>6</sup>		28	47	47	47	47	47
RI Silicon Valley I and II Expansion <sup>7</sup>			24	47	47	47	47
T2 Dual Brand (150 AC and 200 Autograph) <sup>8</sup>				59	88	88	88
Available Rooms per Night	1,937,440	1,980,100	2,090,883	2,184,154	2,194,654	2,194,654	2,194,654
Nights per Year	365	365	365	365	365	365	365
Total Supply	5,308	5,425	5,728	5,984	6,013	6,013	6,013
Rooms Supply Growth	1.3 %	2.2 %	5.6 %	4.5 %	0.5 %	0.0 %	0.0 %
Marketwide Occupancy	81.2 %	81.4 %	79.3 %	77.7 %	78.1 %	78.1 %	78.1 %

<sup>1</sup> Opening in September 2019 of the 100% competitive, 175-room Westport Cupertino

<sup>2</sup> Opening in December 2018 of the 75% competitive, 148-room Hyatt House (Vallco)

<sup>3</sup> Opening in August 2017 of the 75% competitive, 180-room Residence Inn Cupertino

<sup>4</sup> Opening in June 2019 of the 50% competitive, 185-room Kimco Cupertino Village Hotel

<sup>5</sup> Opening in September 2019 of the 50% competitive, 156-room Cupertino Hotel (Goodyear Tires)

<sup>6</sup> Opening in June 2018 of the 25% competitive, 187-room AC Hotel Sunnyvale (T2)

<sup>7</sup> Opening in July 2019 of the 25% competitive, 188-room RI Silicon Valley I and II Expansion

<sup>8</sup> Opening in May 2020 of the 25% competitive, 350-room T2 Dual Brand (150 AC and 200 Autograph)



The subject market is currently operating at peak occupancy levels, enabling operators to continue to increase rate. Market-wide occupancy has been forecast to remain at historically high levels in 2017, and then decrease as proposed new supply enters the market and as average rate increases deter more price-sensitive hotel guests. As a result, occupancy is forecast to stabilize at 78.1%, a level we consider sustainable given historical trends for this market, increases in hotel supply, and our discussion with market participants.

#### **Hotel Sale Transaction**

We conducted a search for recent transactions of hotels that bear comparison to the subject property in one or more key areas in the Silicon Valley and greater Bay Area. We also considered factors such as operational and physical similarities to the subject property, including brand affiliation and revenue-generating characteristics. The following recent transactions involved hotels that have some degree of geographic similitude with the subject property.

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**FIGURE 4-14 RECENT HOTEL SALE TRANSACTIONS – BAY AREA**

Date	Property Name	City	Units	Price (\$)	\$/Units	Cap Rate	Buyer	Seller
Jun-17	Hyatt House Pleasant Hill	Pleasant Hill	142	45,000,000.00	316,901		Shidler Group	Hersha
Jun-17	Westin San Jose	San Jose	171	64,000,000.00	374,269		Aju Hotels & Resorts	Wolff Urban Development
Jun-17	Sutter Hotel	Oakland	102	11,795,000.00	115,637		Hawkins Way Capital	Romeet Raj Singh; Pritin Mukherjee
Jun-17	Leslie Hotel	San Francisco	68	17,750,000.00	261,029		Dipak Patel & Kalpana Patel 2011 Trust, Manishh Gajiw	Coral Partners LLC
Jun-17	Hyatt Place	San Jose	239	62,860,666.70	263,015		Blackstone	Ultima Hospitality
May-17	Oakland Marriott City Center (Leasehold)	Oakland	482	143,000,000.00	296,680		Gaw Capital	Apollo Global RE, DiNapoli Cap Prtnrs
May-17	Albion Hotel	San Francisco	20	2,270,000.00	113,500		Patel Family	Enrique A Rodriguez
May-17	Sheraton Pleasanton	Pleasanton	170	33,850,000.00	199,118		Washington RE Holdings	Kapoor Enterprises, JP Sethi Enterprises
May-17	Best Western Inn	Rohnert Park	145	16,600,000.00	114,483		Steve H Marsh; Kim D Marsh	Sarti Enterprises
Apr-17	Hilton San Jose	San Jose	353	92,500,000.00	262,040	8.1%	Han's Holdings Group	DiNapoli Cap Prtnrs
Mar-17	Kenwood Inn & Spa	Kenwood	30	14,602,500.00	486,750		Aristotle Cap Management	McCaw Group
Feb-17	Intercontinental Mark Hopkins	San Francisco	383	173,000,000.00	451,697		General Nice	Woodridge Capital, Oaktree
Dec-16	Ritz Carlton San Francisco	San Francisco	336	290,900,000.00	865,774		Carey Watermark 2	Thayer Lodging, Cascade Investments, Brookfield AM, MetLife
Dec-16	Purple Orchid Inn Resort & Spa	Alameda	10	4,850,000.00	485,000		Rhannon Eddy	Kaushik Banerjee
Dec-16	Red Coach Motor Lodge	San Francisco	45	13,800,500.00	306,678		The Ehmer Group	Grace Chang, Jane Chang Living Trust
Dec-16	Sonesta Silicon Valley	Milpitas	236	46,000,000.00	194,915		Hospitality Props Trust	Fillmore Cap Prtnrs
Dec-16	Inn at Saratoga	Saratoga	45	13,500,000.00	300,000		Osheanic Capital LLC	Inn of Saratoga Inc
Dec-16	St Regis Hotel (1FL-20FL)	San Francisco	260	173,714,285.70	668,132		QIA	Marriott
Nov-16	Sheraton Fisherman's Wharf	San Francisco	531	200,000,000.00	376,648		Pyramid Hotel Group, Acron AG	Blackstone
Oct-16	Courtyard By Marriott	Sunnyvale	145	75,000,000.00	517,241	5.8%	Hersha	T2 Development
Sep-16	Marriott - San Francisco Airport (Leasehold)	San Mateo	476	132,000,000.00	277,311		Oracle	Tarsadia Hotels
Sep-16	Ritz-Carlton Half Moon Bay	Half Moon Bay	261	171,769,493.70	658,121		Anbang Insurance Group	Blackstone, Strategic H&R (Blackstone)
Sep-16	Four Seasons Silicon Valley	East Palo Alto	200	182,198,568.00	910,993		Anbang Insurance Group	Blackstone, Strategic H&R (Blackstone)
Sep-16	Westin St Francis	San Francisco	1,195	1,017,531,015.20	851,490		Anbang Insurance Group	Strategic H&R (Blackstone), Blackstone
Jul-16	Great Highway Inn	San Francisco	54	15,343,500.00	284,139		Rajen Shah	Doris M Surian; Romano M Surian
Jul-16	Marriott Downtown	San Jose	510	153,945,666.70	301,854	6.2%	Carey Watermark 2	CBRE Global Investors
Jun-16	Hilton Garden Inn San Leandro	San Leandro	119	26,550,000.00	223,109	8.1%	Arbor Lodging Partners	Joseph Lee, Kwang Hyun Do
Apr-16	The Vintage Estate	Yountville	192	197,000,000.00	1,026,042		Brookfield Prop Prtnrs	Sandbach Family, Michael P Egan, Ghilotti Family
Mar-16	Wine Country Inn	Napa	29	13,785,500.00	475,362		RSBA & Assocs	Carson Finical
Mar-16	Marriott Pleasanton	Pleasanton	242	51,300,000.00	211,983	7.1%	Pyramid Hotel Group, Western & Southern Life	Wheelock Street Capital
Mar-16	Santa Clara Inn	San Jose	30	8,600,000.00	286,667		Allied Housing Inc	Naveeda Khan
Feb-16	Fairmont Sonoma Mission Inn & Spa	Boyes Hot Springs	226	84,348,000.00	373,221		Carey Watermark 1	Fairmont Hotels & Resorts
Feb-16	Club Quarters San Francisco	San Francisco	346	126,047,000.00	364,298	8.5%	Blackstone	Masterworks Development
Feb-16	Marriott Courtyard	Oakland	162	43,800,000.00	270,370	7.2%	Gaw Capital	CIM Group
Jan-16	Hilton Garden Inn	Mountain View	160	74,000,000.00	462,500	7.0%	Shashi Group	Summit Hospitality
Dec-15	Four Seasons Silicon Valley	East Palo Alto	200	183,783,926.40	918,920		Strategic H&R (Blackstone), Blackstone	Strategic Hotels & Resorts
Dec-15	Sofitel	Redwood City	421	154,500,000.00	366,983		CBRE Global Investors	Prudential RE Investors, Lodging Cap Prtnrs



## 5. Description of the Proposed Mixed-Use Project

The quality of a lodging facility's physical improvements has a direct influence on marketability, attainable occupancy, and average room rate. The design and functionality of the structure can also affect operating efficiency and overall profitability. The proposed hotel will be part of Westport Cupertino mixed-use development. It is important to discuss the uses within Westport Cupertino.

### Project Overview

Westport Cupertino Mixed-Use Development will include a 7-story, 280,000 square feet Class A office building, a 6-story upscale to upper-upscale hotel (subject hotel), three 5-story residential buildings containing a total of 270 residential units, a theatre, a transit center, and a 3-story, below-grade parking. Westport Cupertino will serve as a vibrant mixed-use gateway district providing affordable and senior housing, extensive community benefits, significant mobility options, and a retail, entertainment, and civic destination for the greater Cupertino community.

### HOTEL RENDERINGS – VIEW FROM THE NORTH





## HOTEL RENDERINGS – VIEW FROM THE SOUTH

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## HOTEL PLAZA RENDERINGS





## HOTEL LOBBY AND PASEO RENDERINGS

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## AERIAL VIEW RENDERINGS



## MIXED-USE LAYOUT PLAN



### Project Program Summary

Based on information provided by KT Urban, the following table summarizes the facilities that are expected to be available at Westport Cupertino.

Redevelopment of an existing shopping center on 8.1 acres site, to provide mixed-use urban village with the following structures:

- Office Building: 7-Stories; 280,000 SF. Potential "Incubator Office Space" at Level 1.
- Hotel Building: 6-Stories; 116,850 SF; 170 hotel units ("keys"); w/ 4,000 SF Conference Facility / Community Space.





- Residential-Retail Building A: 5-stories; 127,820 SF residential; 115 units; w/ 13,875 SF of ground-level retail. 12,135 SF garage w/ 10 grade-level parking spaces.
- Residential-Retail Building B: 5-stories; 89,815 SF residential; 85 units; w/ 15,700 SF of ground-level retail.
- Residential-Retail Building C: 5-stories; 58,060 SF residential; 70 units; w/ 12,425 SF of ground-level retail.
- Theater at Hotel: 27,500 SF; 5 theaters.
- Transit Center: 1000 SF of covered vertical circulation to pedestrian bridge to center of Highway 85, and vehicular roundabout for unloading zone and local bus stop. Designated parking spaces in garage below.
- Below-Grade Parking Garage: 3-stories; 720,000 SF; 1,470 parking spaces, w/ 416 bicycle spaces.

### Westport Cupertino - Description of Land Uses

Westport Cupertino Mixed-Use Gateway is envisioned as a vibrant mixed-use site deserving of its gateway location in the City of Cupertino. The following section describes the proposed land uses.

**Retail/Commercial** – 69,500 square feet in total. This includes approximately 42,000 square feet constructed on the ground floor. Uses include retail, restaurants, and neighborhood services. It also includes a 27,500 sf. five-screen boutique movie theater. The retail space will be internally connected through a network of pedestrian and open spaces linking the office, hotel and residential uses. The goal is to create an experience-oriented destination for residential, shopping, dining, and entertainment in a “gateway” environment, as envisioned in the Heart of the City Specific Plan.

**Community Center** – This 4,000 square feet. publicly-accessible community center will be available for civic and community functions such as De Anza Community College lectures and education activities, conferences, school events, community celebrations, and a variety of social gatherings (e.g. weddings, parties, club events, non-profit functions).

**Open Space** - Generously landscaped common areas including plazas, outdoor seating (for restaurants and public use), and public art.

**Transit Center** – The transit center will provide the basis for a future connection for rapid transit along State Route 85, 50 onsite parking stalls, and a shuttle drop-off/pick-



up area, thus removing commuter buses and improving pedestrian and bike safety along Mary Avenue.

**Underground Parking** – All parking (1,480 spaces) will be located on three underground levels, thereby reserving the ground floor as a vibrant, pedestrian-friendly urban space.

**Offsite Mobility Improvements** – Roadway and intersections improvements on Stevens Creek Boulevard and Mary Avenue, as well as improving pedestrian and bikeway access along Mary Avenue, providing a variety of city-wide bikeway improvements, contributing to the City’s Safe Routes to School, contributing to a future City-sponsored shuttle program, and other mobility initiatives.

**Class A Office** - Today’s technology companies require work environments that allow them to compete globally. Most existing office inventory in Cupertino consists of Class B and C product that meets neither employers’ needs nor the growing demand for local companies to expand. The project’s new Class A, 280,000 square foot office building will allow the City to diversify its corporate base and attract a headquarters’ user in the western area of the City.

**Flagship Hotel** - A flagship upscale hotel integrated with the boutique movie theater and community center, will include a rooftop restaurant/lounge and modern amenities.

**Residential** - The opportunity to provide housing near jobs will help reduce local trips and improve the jobs-housing imbalance in the City of Cupertino. Located in three 5-story buildings, the residential component will consist of market rate as well as affordable housing for seniors. The affordable housing commitment is 20% of a total of 270 residential units, thereby providing greater affordability rates than what is required by the City’s BMR Housing Program.

## Conclusion

Westport Cupertino will offer a modern, functional layout conducive to, and supportive of an upscale hotel operation. We assume that the buildings will be fully occupied and operational on the assumed hotel opening dates and will meet all local building codes and upscale standards. The following chapter will discuss our recommendations for the hotel component, which takes into account the previously discussed complementary facilities which will enhance the hotel operation.



# 6. Proposed Hotel Product Recommendation

## Hotel Product Overview

Due to their relatively high RevPAR and efficient operating profile, upscale select-service and extended-stay hotels in Silicon Valley generate the higher return on invested capital which is why we are seeing so many of these hotels being developed today, while full-service hotels offering a higher level of services and amenities such as a full-service restaurant, fully-equipped meeting space, catering services, room-service, and extensive guestroom amenities typically have a higher development cost, and have a higher operational overhead. Our interviews with local hotel operators revealed that stabilized occupancy performance is driving average rate growth. Mid-week business, which is generated by local tech companies, is almost entirely negotiated in advance with the major account. Group business is mostly small corporate groups, and food and beverage business during the mid-week is not strong.

The subject site is located in the northeastern corner of the intersection formed by Highway 85 and Stevens Creek Boulevard. A variety of full-service restaurants, bars, and retail outlets are within driving distance from the subject site. Across Stevens Creek Boulevard is De Anza College. The subject site benefits from easy access to/from Interstate 280 and Highway 85. Based on interviews with local hotel operators, hotel developers, city officials, and our local knowledge of the area, the subject site is considered an “A” location with potential for development of a high-end to upscale mixed-use development, including an upscale hotel.

## Product Selection

The following table illustrates the brands within the select-service, boutique lifestyle, and micro-unit classes including number and type of rooms, meeting-space square footage, and other required services and amenities.

**FIGURE 6-1 PRODUCT SELECTION**

	<u>Branded Select-service</u>	<u>Boutique Lifestyle Full-Service</u>	<u>Boutique Lifestyle Select</u>	<u>Micro-unit Hotels</u>
<b>Brands</b>	Courtyard by Marriott Hilton Garden Inn SpringHill Suites Indigo Hotels Hyatt Place Four Points Sheraton Cambria Suites	Hyatt Centric Curio by Hilton 1 Hotels by Starwood Autograph Collection by Marriott B Hotels Registry by Wyndham Kimpton Hotels by IHG Virgin Hotels Radisson Red Proper Hotels Unscripted by Dream Hotel Group The Edition by Marriott Nobu Hotels	Unbound by Hyatt Tapestry by Hilton Canopy by Hilton AC Hotels by Marriott Even Hotels by IHG Tryp by Wyndham Joie de Vivre by Commune Ace Hotels Aloft Hotels by Starwood Thompson Hotels by Commune	Pod Hotels Yotel Hotels Tommie Hotels by Commune Moxy by Marriott citizenM
<b>Size</b>	150 to 175 Rooms Average size 250 SF to 500 SF	175 to 250 Rooms Average size 350 SF to 600 SF	125 to 190 Rooms Average size 250 SF to 400 SF	75 to 125 Rooms Average size 160 SF to 300 SF
<b>F&amp;B Offering</b>	Paid Breakfast Lunch or Dinner Service Limited Catering Hosted Reception	Full-service Restaurant Full-service Bar On-site Catering May be Leased Operation	Beverage Oriented Food Operation Full-service Bar On-site Catering May be Leased Operation	Large Lounging Area Full-service Bar May be Leased Operation
<b>Services and Amenities</b>	Complimentary Wi-Fi Full-service Business Center Fitness Room Pool	Complimentary or Paid Wi-Fi Lobby Workstations Fitness Room	Complimentary Wi-Fi Lobby Workstations Fitness Room	Complimentary or Paid Wi-Fi Connectivity Fitness Room
<b>Meeting Facilities</b>	Two Board Rooms and Junior Ballroom (Example: 2,500 square feet for 150 rooms, or 20 square feet/room)	Fully Equipped Meeting Rooms (Example: 4,500 square feet for 150 rooms, or 37.5 square feet/room)	Fully Equipped Meeting Rooms (Example: 3,500 square feet for 150 rooms, or 23.5 square feet/room)	Minimal Meeting Rooms (Example: 1,500 square feet for 150 rooms, or 10 square feet/room)



Select-service properties offer limited degrees of services and amenities compared to full-service hotels. While most select-service properties do not contain extensive meeting, recreational and retail facilities, there is diversity when it comes to the offering of food and beverage. Within the select-service category, there are brands that offer retail food and beverage service, and others that do not. A large part of the reason for the popularity of owning and operating select-service properties is the relative ease of operations. Without the extensive array of facilities, services, and amenities, select-service hotels have fewer departments to manage, and are more efficient to operate. It is generally accepted that select-service hotels are more profitable than full-services hotels. This category comprised an estimated 89% of the total hotel projects under construction according to the December 2016 *U.S. Hotel Pipeline* report from STR.

The Boutique Lifestyle class is an emerging segment in the hotel industry, with many already well-established hotels in urban and suburban locations. Driven by the major hotel chains, they borrow the best elements of a traditional boutique hotel – small, intimate and modern – and integrate the advantages only a chain can offer, like loyalty program, consistency, and economies of scale. As a result, boutique lifestyle hotels are generally more affordable and accessible than a traditional boutique hotel and full-service hotel. Boutique Lifestyle hotels are tailored per location, giving travelers a distinct taste of the city's culture and cuisine. They also provide flexibility for both casual and business travelers, though an intimate and cosmopolitan atmosphere is felt regardless of the location or reason for travel, making them feel welcome and truly part of each city's culture. Each hotel is a unique product of its environment, all the while retaining an upscale residential feel.

Micro-unit hotels are challenging the status quo of travel. Micro-unit hotels have smaller rooms, are generally newer built, contain lots of tech, trendy lighting, and larger lounge-style public areas that serve as “work/eat/play” space. Micro-unit hotels provide “affordable luxury” to travelers with a lobby that is designed like a living room and rooms that are small but with wall-to-wall windows, soft XL size beds, rain showers and free WIFI. These hotels move away from traditional elements like a concierge or room service, and guests can check themselves in via kiosks in the lobby and get food and drinks from a canteen. Some brands offer only very small TechEd-out, pod-like, capsule units that serve the absolute basics of overnight rest. Some even have shared bathroom space.

## **Product Recommendation**

Our research of the hotel market concludes that demand for upscale hotels with high-quality services and amenities exists. The subject location is not ideal for a group hotel (over 200 rooms) due to its distance from the Santa Clara and San Jose convention centers; and according to representatives at the Juniper Hotel (a Curio by Hilton), 90% to 95% of corporate business travels from within a 10-mile radius. Typically, tech-



industry guests seeking boutique lifestyle/affordable luxury brands. The weekend guest is visiting from LA, staying for pre- or post-convention events, stopping en route to Napa Valley, or visiting family in area. Because of the high concentration of extended-stay hotels in close proximity to area demand generators along El Camino Real and two under construction in the City of Cupertino, the subject's location is not ideal for an extended-stay hotel. Operators and hotel investors agreed that the subject site has potential for a hotel ranging from 145 to 195 rooms in size that will accommodate mid-week business from local demand generators and weekend visitors. Because food and beverage is typically unprofitable for area hotels and food options abound in the neighborhood and proposed mixed-use development, our product recommendation focuses on boutique lifestyle hotels with a heavy emphasis on beverage service and independent upscale hotels with a leased restaurant operation.

Based upon our field research and our knowledge of area hotels and demand generators, our recommendation regarding the most appropriate lodging product for your site is for a 180-room boutique lifestyle hotel with a focus on beverage, a "B&F" (Beverage & Food) lounge area offering cocktails, beverages and small plates (not three meals a day – evenings only). A boutique lifestyle select brand, commercially oriented hotel that will appeal to tech-industry guests seeking a lifestyle brand, as well as weekend visitors looking for a modern, upscale hotel option near leisure attractions. Our product recommendation includes an open multimedia lobby area with comfortable sofas featuring free Wi-Fi, a healthy crafted small-plate breakfast buffet (paid offering), and a 24-hour market pantry. The meeting space offering should feature a minimum of three medium-sized rooms (combined for a large ballroom) for business, social or family events, and two media scape boardrooms featuring workspace on demand. The guestroom product should at the very least meet upper-upscale standards, with plush bedding, simplistic design with no art work, a workspace, free high-speed Internet access, and high-quality bath amenities. Guestroom bathroom shower stalls with high pressure rain showers instead of tub and shower combination, and suites containing a separate soaking tub. The fitness area should feature a room fully equipped with state-of-the-art equipment. The outdoor areas may feature local fauna landscape and a comfortable seating area with an outdoor fire pit. It is our understanding that five boutique theatres, including a TED-talk style theatre will be located on the underground levels of the hotel. This concept will not only enhance the overall guest travel experience, but also provide an additional neighborhood amenity. A roof-top bar open to hotel guests, as well as local businesses and community patrons will benefit from the breath-taking views of the valley. It is our understanding the hotel will be part of an upscale mixed-use development containing retail commercial space and office space, as well as an upscale residential component. The hotel can be complemented by a ground-floor leased restaurant and bar operation within the mixed-use development.





The optimal brand will depend on several factors, including availability, brand restrictions, market positioning, and market strategy. We recommend exploring further with select brand managers in the Boutique Lifestyle Select category and conducting an RFP process based on the recommendations set out in this study.

Our brand and facility recommendation considers the following factors:

- The proposed site is in a suburban hotel location with excellent highway and roadway frontage and good visibility/accessibility.
- Existing surrounding uses of the site include multi-family residential, office, and a restaurant.
- The proposed development of the overall site includes multi-family residences, office, condos, and supportive retail uses.
- The shortage of quality upscale boutique lifestyle hotel developments with community space in Cupertino.
- The hotel will be developed by an experienced commercial developer and managed by a reputable, experienced third-party hotel operator under a major national brand affiliation.
- Demand to the overall market is commercial-driven, resulting in strong weekday performance. According to local operators, weekend business can often be challenging, particularly for hotels in more suburban locations such as Sunnyvale/Cupertino. Meeting and group business is driven by the local tech companies and the Santa Clara convention center. Some social meeting and group business is present from weddings, reunions, etc.
- The hotel's design, brand, and operations will be of a caliber that will drive demand to the property. The hotel will have distinctive characteristics and food and beverage offerings that will also be positioned to enhance the overall neighborhood and appeal to the city's residents, as roof-top bars and open lounge/community space options are limited in the immediate neighborhood.
- Given the subject site's suburban highway location and considering the average square footage of comparable properties in the area, micro-units would not be the most optimum size for this market.

Every operator/management company/hotel company has different design and facility visions. While we have recommended a baseline level of hotel facilities, the space



program for the subject site would depend on the branding, operator, and developer. Our recommendations, therefore, are general in nature, correlating the overall consistencies among the options that were considered based on the location and likely positioning of the project.

The following table illustrates our product recommendation, including type of product, number and type of rooms, meeting-space square footage, and other required amenities.

**FIGURE 6-2 PROPOSED HOTEL FACILITIES RECOMMENDATION**

Proposed Boutique Lifestyle Select Hotel	Total Number of Rooms	Room Mix				Indoor Meeting Space (SF)	Meeting Space per Room	Total Square Feet
		Standard King	Double Queen	King Suite	Hospitality Suite			
Guestroom Mix	180	110	45	20	5	4,500	25.0	
Units		Description						
Guestrooms	180	Simplistic design; consistent FF&E in all rooms; modern lighting; closet featuring exposed design; work desk; technology package; complimentary WiFi; at least three room type options.						65,700
Meeting Rooms	Up to 5 Rooms	A 4,500 SF divisible, multi-use meeting room, two private boardrooms						4,500
Fitness Room/Pool		Fully equipped fitness room and tempreature-controlled pool						2,100
Business Area		Multimedia lobby area with comfortable sofas featuring free Wi-Fi						200
Lounge and Food and Beverage		"B&F" lounge area offering cocktails, beverages and small plates (not three meals a day – evenings only). Crafted small-plate breakfast buffet (paid offering). Roof-top Bar.						4,500
Public Space and Lobby		Simplistic design with clean aesthetic; distinct tone-on-tone color palate; local connection through museum-quality artifacts; flexible layout; market pantry						32,000
Total Hotel Building Area (Estimate)								109,000
Theater at Hotel		5 boutique theatres including a TED-Talk style theatre						27,500
Parking	215	Underground parking						68,800
Total Building Area with Theatre and Parking (Estimate)								205,300



**FIGURE 6-3 PROPOSED HOTEL CONCEPTUAL RECOMMENDATION**

Proposed Boutique Lifestyle Hotel	Unit	Minimum	Maximum	Recommended
<b>Standard Room Size</b>	Square Feet	300	350	310
Given the subject site's suburban highway location and considering the average square footage of comparable properties in the area, micro-units would not be the most optimum size for this market. Standard guestroom size at the competitive hotels range from 300 to 350 square feet, we recommend a size in the lower end of this range with enhanced functionality. As a Boutique Lifestyle hotel, some suites should also be offered (10% of guestrooms).				
<b>Meeting Space</b>	Square Foot per Guestroom	20	35	25
The meeting space needs to be flexible and innovative—designed to appeal to both business and social use. The meeting space should blend seamlessly with the public areas and provide new and creative event space to the market. Currently, the meeting space offered in full-service hotels in the market are fairly traditional — generally comprising one boardroom, one or more breakout rooms, and a ballroom. For the proposed Boutique Lifestyle Hotel, flexible ballroom space (approx. 3,000 sf) incorporating a courtyard or outdoor view is recommended. Two boardroom-style meeting rooms are also recommended. Interviews with market participants reveal that high-speed Internet and sophisticated AV equipment in the meeting spaces are crucial to attract the local tech companies. According to some local operators, hotels may also be competing with some of the larger tech companies (Google, Apple, Facebook, etc.) for meeting space as many of these companies offer their own meeting space and/or food & beverage services, and rent them out to other parties. The meeting space should be fully equipped with up-to-date technology and designed in a way that upgrades are able to be handled easily.				
<b>Lobby</b>				
Boutique Lifestyle Hotel Social Lounge - The lobby should be designed as a communal "living room" space with an open floor plan and multiple, flexible seating arrangements. Connectivity in the lobby is crucial - high speed complimentary WiFi and plenty of hardwiring should be available for guests to plug in their personal devices (electric & USB). Limited F&B, with an emphasis on Beverage, should be offered in the lobby. Seating should be arranged to allow flexibility for guests who want to socialize/collaborate with other guests, but also offer individual seating options for guests who need to work independently. Digital self-check-in kiosks in addition to a more traditional guest check-in option should be offered.				
<b>Food and Beverage</b>				
There are limited high-quality food and beverage options within the immediate neighborhood. For a Boutique Lifestyle Select hotel, a casual dining option with full bar/lounge serving small plate, tapas style food is recommended. The hotel may also opt to lease a ground floor facility to an experienced F&B operator, which should enhance the overall neighborhood and appeal to local patrons as well as hotel guests. A limited in-room dining menu should be offered. A roof-top bar with views of the valley should provide guests and local patrons with a destination amenity offering favorite local brews and cocktails, as well as serving a casual dining menu.				
<b>Recreational Facilities</b>				
The fitness area is important for a boutique lifestyle property and needs to be open with natural light and ample equipment. A larger, full-service fitness center shared between hotel guests and residences may also enhance the overall plan for the mixed-use community. An outdoor swimming pool/whirlpool shared between hotel guests and residences would also make sense, and If possible, the outdoor pool area should offer lounge-style seating to attract leisure guests on the weekends.				
<b>Amenities &amp; Services</b>				
Complimentary high-speed WIFI	Locally-curated Honor Bar	Complimentary "Social Hour"		
Keyless room entry	Roof-top bar	Market Pantry - grab'n'go options		
Complimentary shuttle service to nearby companies	Minimum two computer workstations			
<b>Other</b>				
An eco-emphasized, LEED-certified building would be viewed favorably within the market				



## 7. Millennial Focused Hotel

### Tech-Savvy Millennial

The following paragraph will discuss the current social and economic trends affecting the travel industry. Millennials (also known as Generation Y) are the demographic cohort following Generation X. There are no precise dates for when this cohort starts or ends. Demographers and researchers typically use the early 1980s as starting birth years and the mid-1990s to early 2000s as ending birth years. Millennial characteristics vary by region, depending on social and economic conditions. However, the generation is generally marked by an increased use and familiarity with communications, media, and digital technologies. In most parts of the world, their upbringing was marked by an increase in a liberal approach to politics and economics; the effects of this environment are disputed. The following bullet points will discuss travel preferences for Millennials.

- **Localization** – Millennials seek unique, authentic local experiences over the average “box” hotel experience. Hotels should be designed specific to the local market, featuring products and design elements that reflect the unique attributes of each locale.
  - Ex: locally-sourced grab’n’go food options; thoughtfully-curated Honor Bar featuring local products (i.e. TCHO Chocolate in San Francisco) in guestrooms; hotel design featuring local artists; signature local amenities; guest bike rental program so guests can explore the neighborhood
- **On Demand Convenience** – Millennials seek immediate gratification and speed/efficiency in their travel experience.
  - Mobile app that allows you to text message your room-service orders, live chat with concierge, check-in and out of your guestroom; digital self-check-in kiosks; mobile keyless check-ins; Honor Bar/Mini-bar in guestrooms; grab’n’go options/”take-out” F&B options; tablets with apps in F&B space for self-service ordering
- **Smart Tech** – Technology must be incorporated into the guest experience in a way that is intuitive and helpful, not overdone and complicated. Over-teching can backfire and cause operational issues.
  - Ex: Smart TVs where guests can access their personal content subscription accounts (Netflix, Hulu, etc.); tablets in guestrooms where



guests can navigate hotel features, order room service, find out information about the local neighborhood; air play technology/docking stations/cables equipped to plug in personal mobile devices

- **Connectivity** – availability of high-speed WIFI is crucial. **Complimentary** high-speed Internet is becoming more of a requirement rather than an amenity. Ample electrical outlets/USB ports in guestrooms and public areas is imperative as guests often bring multiple mobile devices with them during their travel and need to stay connected.
- **Community** – Millennials seek social experiences when they travel, even when they are doing seemingly independent activities (i.e. working). The hotel's lobby should be designed as a communal, interactive area where guests (and/or public) can work/lounge/play.
- **Value - Micro-unit or "Pod" Hotels** – Pod hotels are characterized by their smaller room size (150-175 square feet), unique designs, and high-tech gadget features. These hotels offer a value by sacrificing space for price. While Pod hotels may be an excellent alternative in dense, urban locations such as New York City, this model may not work in less dense, suburban markets where demand is seasonal in nature. Based on our market research, this concept is not recommended in the Sunnyvale market due to the need for the hotel to attract different market segments during the weekends. Furthermore, even Millennials prefer more square footage if given the alternative at a similar value.
  - Ex: Yotel, Pod Hotels, citizenM, and the upcoming Tommie brand by Commune.
- One caveat to consider is that technology is constantly evolving and may become outdated fairly quickly. Specifically, in markets like Silicon Valley where the local market is literally creating the newest technology, it can be hard to keep up with the latest and greatest. There is a concern that overly improving a hotel with what is currently the latest technology can result in a significant investment that becomes outdated quickly and the hotel may struggle to keep up.



## Millennial Focused Hotel Examples

### THE EPIPHANY



**THE EPIPHANY**



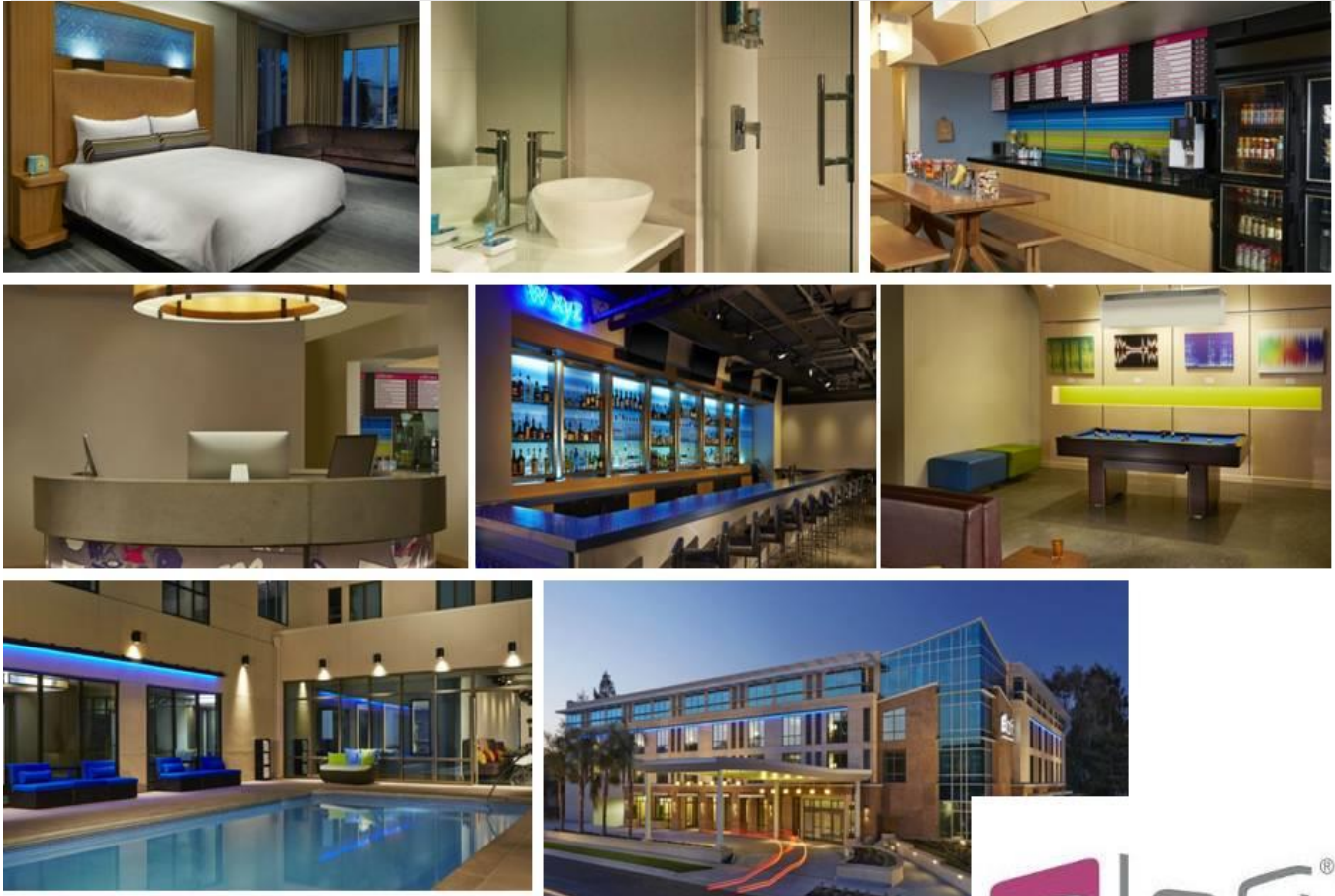


## THE EPIPHANY HOTEL

<b>Name</b>	<b>The Epiphany - <i>Recharge and Stay Wired</i></b>
<b>Location</b>	<b>Palo Alto, CA</b>
<b>Location Types</b>	Urban
<b>Affiliation</b>	Joie de Vivre
<b>Year Open/Affiliated</b>	2014
<b>Service</b>	Full
<b>Rooms</b>	86
<b>Guestrooms</b>	Standard guestrooms (73) average 300 square feet and feature King or Queen/Queen beds; Junior Suites (9) feature King beds and balconies; Hospitality Suites feature King Beds, balconies, and premium amenities
<b>Meeting Rooms</b>	2
<b>Meeting Space (SF)</b>	650
<b>(SF) Per Room</b>	7.6
	The Epiphany's meeting space is designed to be flexible, blending seamlessly with the hotel's public areas. The hotel's meeting space is located on the mezzanine level and comprises one boardroom and one flex room that is used as business center/public space when not rented for private events. The mezzanine level also includes a small outdoor terrace that can be used in conjunction with the flex room for cocktail receptions. In addition, the hotel offers four hospitality suites located on the 8th floor that can be transformed into additional meeting space. The hospitality suites are located adjacent to one another and feature a large, contiguous patio. When combined, these hospitality suites can accommodate up to 175 guests.
<b>F&amp;B</b>	Lure + Till Restaurant (full-service restaurant) 24/7 In-room dining
<b>Recreational Facilities</b>	Complimentary access to fitness club located next door
<b>Business Center</b>	Two Apple computer workstations on mezzanine level
<b>Amenities &amp; Services</b>	<ul style="list-style-type: none"> <li>• Complimentary high-speed WIFI (upgrade for fee)</li> <li>• Tech Concierge Services</li> <li>• Guest Bike Rentals</li> <li>• Guestroom Honor Bar featuring local products</li> <li>• Full-size luxury amenities in guestrooms - available for purchase</li> <li>• Smart TV's that guests can access their personal subscription accounts from (Netflix/Hulu/Youtube)</li> <li>• Illy espresso machines</li> <li>• Bedside G-LINK docking station that allows guests to wirelessly connect their personal mobile devices in guestrooms</li> </ul>
<b>Other</b>	The hotel was designed by IDEO, an international design and consulting firm founded in Palo Alto, with the vision of creating a high-tech hotel that caters to and inspires the tech-savvy traveler. One of the focal design features of the hotel is Edison, a dynamic light-and-motion sculpture that was engineered, built, and coded for a 10x10 foot array of 100 lightbulb, each of which is individually controlled by a central computer and vertically spans the hotel's two-story mezzanine.



## ALOFT





## ALOFT HOTEL

<b>Name</b>	<b>Aloft</b>
<b>Location</b>	<b>Cupertino, CA</b>
<b>Location Types</b>	Suburban
<b>Affiliation</b>	Starwood
<b>Year Open/Affiliated</b>	2013
<b>Service</b>	Select
<b>Rooms</b>	123
<b>Std Guestroom Size</b>	300
<b>Meeting Rooms</b>	1
<b>Meeting Space (SF)</b>	1,100
<b>(SF) Per Room</b>	8.9
	Aloft Cupertino offers one meeting room that can be subdivided into three smaller rooms.
<b>F&amp;B</b>	Re:Mix Lobby Lounge (open-concept) W XYZ Bar (outdoor patio) Re:Fuel Grab'n'Go Eatery
<b>Recreational Facilities</b>	Re:Charge Fitness Center Outdoor Swimming Pool/Whirlpool
<b>Business Center</b>	Two Apple computer workstations in lobby
<b>Amenities &amp; Services</b>	<ul style="list-style-type: none"> <li>• Complimentary high-speed WIFI (upgrade for fee)</li> <li>• Lobby iPad Kiosk</li> <li>• AppleTVs in all guestrooms</li> <li>• Pool Table in lobby</li> <li>• Complimentary shuttle service to nearby tech companies</li> <li>• "Sassy Hour" from 3:30 to 7pm daily at W XYZ bar (not complimentary)</li> </ul>



## HOTEL MAX





## HOTEL MAX

<b>Name</b>	<b>Hotel Max - <i>The Most Artistic Downtown Seattle Hotel</i></b>
<b>Location</b>	<b>Seattle, WA</b>
<b>Location Types</b>	Urban
<b>Affiliation</b>	Provenance Hotels
<b>Year Open/Affiliated</b>	1926/2005
<b>Service</b>	Full
<b>Rooms</b>	163
<b>Guestroom Size</b>	"Mini" - full or queen beds (175 square feet); "Classic" - queen, king, or double/double beds (250 square feet); "Max" - king or double/double beds (375 square feet)
<b>Meeting Rooms</b>	2
<b>Meeting Space (SF)</b>	6,700
<b>(SF) Per Room</b>	41.1
	The Hotel Max offers two meeting room options - a more traditional boardroom and un-traditional 6,300 square foot "Artist Loft" that features ample natural light, concrete floors, and an entrance accessible through an 8' car elevator. The unique nature and flexibility of this meeting space makes it popular for a wide-range of events.
<b>F&amp;B</b>	Miller's Guild Restaurant (leased - James Beard awarding Chef) In-room dining
<b>Recreational Facilities</b>	24/7 Fitness Center
<b>Business Center</b>	24/7 Two computer workstation
<b>Amenities &amp; Services</b>	<ul style="list-style-type: none"> <li>• Complimentary high-speed WIFI (upgrade for fee)</li> <li>• Smart TVs in guestrooms</li> <li>• Original artwork in guestrooms and public areas</li> <li>• Pet-friendly hotel; offers pet amenities and pet room service</li> <li>• "Get it now" room service for forgotten items in addition to F&amp;B</li> <li>• Guests can borrow iPods that are preloaded with music from front desk</li> <li>• Spiritual menu - offers a variety of books of faith for borrow</li> <li>• Complimentary local craft beer hour from 5:30 to 6:30pm daily</li> <li>• Pop art lobby gallery featuring original artwork</li> </ul>
<b>Other</b>	The 5th floor of the hotel is themed to play homage to Sub Pop Records, Seattle's iconic independent record label





## ACE HOTEL



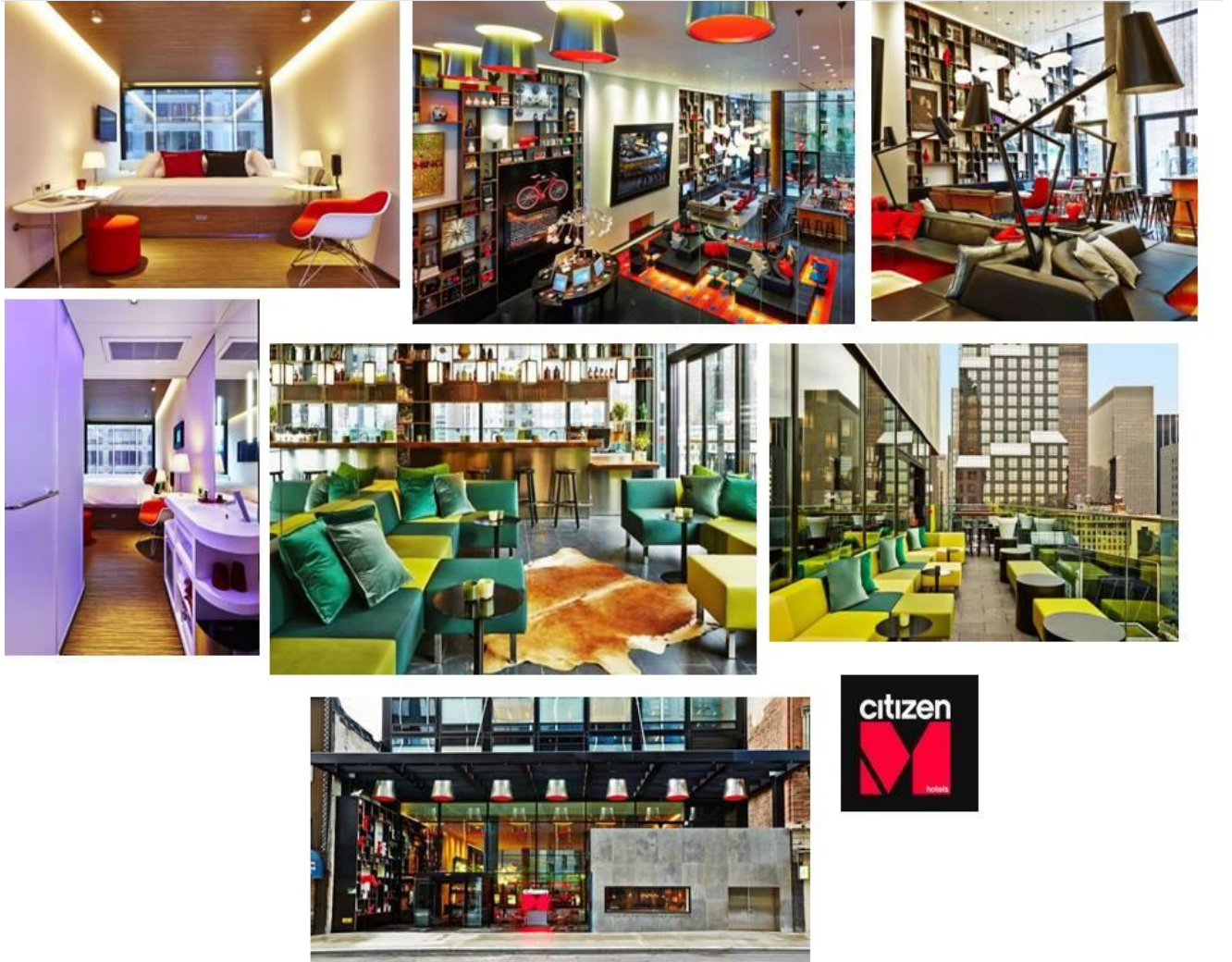




## ACE HOTEL

<b>Name</b>	<b>Ace Hotel</b>
<b>Location</b>	<b>New York, NY</b>
<b>Location Types</b>	Urban
<b>Affiliation</b>	Ace Hotels
<b>Year Open/Affiliated</b>	2009
<b>Service</b>	Full
<b>Rooms</b>	275
<b>Guestrooms</b>	"Bunk Beds" - twin-sized bunk beds; "Mini" - full-sized beds"; "Small" - full/queen/king beds; "Medium" - full/queen/king beds (330 square feet); "Large" - king beds (400 square feet); "Double" - double-beds; "Loft Suite" - king beds (711 square feet)
<b>Meeting Rooms</b>	2
<b>Meeting Space (SF)</b>	3,600
<b>(SF) Per Room</b>	13.1
	The Ace Hotel offers two dedicated meeting rooms - one 700 square foot boardroom, and a 2,700 square foot flexible event space that can be used for wedding receptions, corporate meetings, cocktail parties, and fashion shows. The meeting space is operated by the third-party restaurant operator. Additionally, the hotel's two Loft Suites can be rented for meetings and cocktail parties.
<b>F&amp;B</b>	<hr/> The Breslin Dining Room & Bar John Dory Oyster Bar No. 7 Sub Shop Stumptown Coffee Roasters Lobby Bar 24/7 In-room dining *All f&b services are leased to third-parties <hr/>
<b>Recreational Facilities</b>	<hr/> 24/7 Fitness Center; Art Gallery <hr/>
<b>Business Center</b>	<hr/> Computer workstations <hr/>
<b>Amenities &amp; Services</b>	<hr/> <ul style="list-style-type: none"> <li>• Complimentary high-speed WIFI (upgrade for fee)</li> <li>• Dog-friendly</li> <li>• Smart TVs in guestrooms</li> <li>• Original artwork in guestrooms and public areas</li> <li>• Locally-made and vintage furnishings</li> <li>• Locally-curated minibar; Loft Suites offer full-sized Smeg refrigerators</li> <li>• Hypoallergenic beds</li> <li>• Guestroom amenities and products available for purchase (just take with you)</li> <li>• Open lobby concept with flexible seating options for work/play/lounge</li> </ul> <hr/>
<b>Other</b>	<hr/> The Ace Hotel's lobby dually serves as public space where guests/locals hang out/work during the day, and lounge/drink/play at night. Events are featured in the lobby throughout the week. Past events include free live DJ sets and "Codeathon," a three-day series that challenge interactive designers, developers, and students to build a health-based app. <hr/> Offers two retail outlets - Opening Ceremony (clothing boutique) and Project No. 8 gift shop <hr/>

## CITIZENM





## CITIZENM

<b>Name</b>	<b><i>citizenM - Affordable Luxury for the People</i></b>
<b>Location</b>	<b>New York, NY</b>
<b>Location Types</b>	Urban
<b>Affiliation</b>	Citizen M
<b>Year Open/Affiliated</b>	2014
<b>Service</b>	Select
<b>Rooms</b>	230
<b>Guestrooms</b>	"Pod-style" guestrooms - 170 square feet; no suites offered
<b>Meeting Rooms</b>	N/A
<b>Meeting Space (SF)</b>	N/A
	citizenM hotels are designed for transient travelers seeking fast, convenient, and affordable luxury in urban markets and do not offer meeting space
<b>F&amp;B</b>	canteenM - cafeteria-style casual grab and go option available 24/7 - space is configured where it feels like a bar/market pantry/coffee shop all in one. Offers barista-made coffee, fresh juices, hot & cold food items, and a full bar. The F&B space blends seamlessly with the lobby "living room."
	cloudbar - rooftop bar & lounge serving artisan cocktails
<b>Recreational Facilities</b>	Fitness center
<b>Business Center</b>	Mac computer workstations in mezzanine levels
<b>Amenities &amp; Services</b>	<ul style="list-style-type: none"> <li>• Digital touch-screen self check-in kiosks (staff available for help)</li> <li>• Complimentary high-speed WIFI (upgrade for fee)</li> <li>• XL King-sized beds</li> <li>• Complimentary new release movies</li> <li>• "MoodPad" tablet that controls the tv/lighting/temperature/alarm in each guestrooms. The tablets can be used to surf the web also.</li> <li>• Mood lighting features</li> <li>• Luxury bath amenities that were specifically designed for citizenM</li> <li>• Giftshop for essentials/local items</li> </ul>



## VIRGIN HOTELS





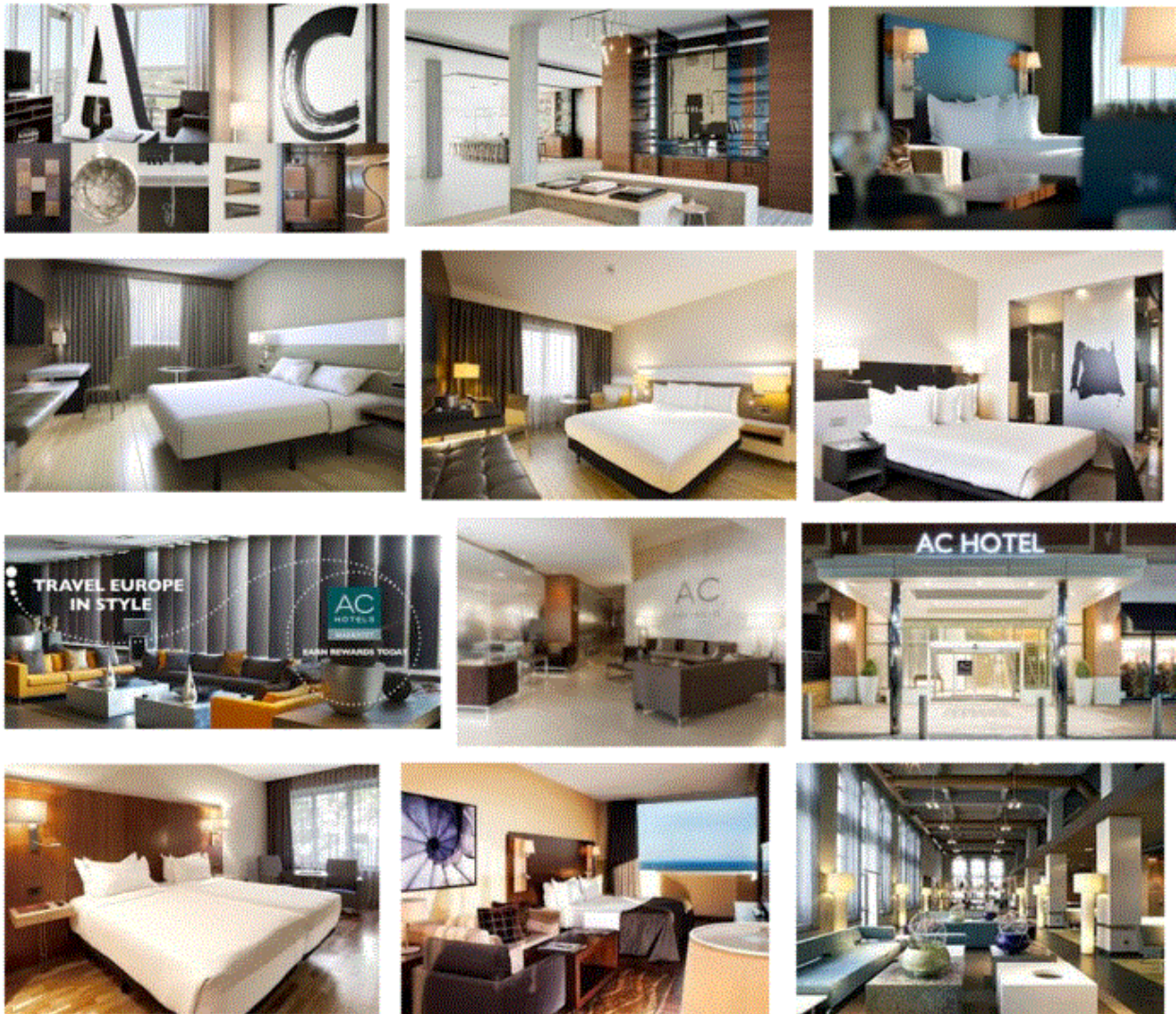
## VIRGIN HOTELS

<b>Name</b>	<b>Virgin Hotel</b>
<b>Location</b>	<b>Chicago, IL</b>
<b>Location Types</b>	Urban
<b>Affiliation</b>	Virgin Hotels
<b>Year Open/Affiliated</b>	2015
<b>Service</b>	Full
<b>Rooms</b>	250
<b>Guestrooms</b>	"Chambers" concept guestrooms with sliding set of privacy doors that separate the "dressing room" and "sleeping lounge"
<b>Meeting Rooms</b>	3
<b>Meeting Space (SF)</b>	2,300
<b>(SF) Per Room</b>	9.2
	Virgin Hotel Chicago features three flexible meeting rooms, the largest of which will seat up to 170 theater-style. The meeting rooms will be designed to offer flexible and creative event space that can cater formal corporate dinners to fun mixers with mini-golf and life-sized Jenga games.
<b>F&amp;B</b>	<hr/> Miss Ricky's - three-meal The Commons Club - three-meal The Rooftop Bar TwoZeroThree - coffee and wine bar 24/7 In-room dining <hr/>
<b>Recreational Facilities</b>	<hr/> Rooftop gym featuring internet-equipped Technogym cardio machines; Full-service spa <hr/>
<b>Amenities &amp; Services</b>	<hr/> <ul style="list-style-type: none"> <li>• Complimentary WIFI</li> <li>• Mobile app that allows guests to order room service, control temperature, make dinner reservation, live chat with concierge and/or other guests</li> <li>• Smart TVs in guestrooms to stream your personal content; download movies onto your mobile device to watch during rental period</li> <li>• Minibars stocked at "street prices" in guestrooms</li> <li>• Sit-down makeup vanity in guestroom baths</li> <li>• One-of-a-kind custom designed hybrid bed with ergonomic headboard and erectable footboard</li> <li>• Dog-friendly rooms available</li> <li>• Hosted Social Hour from 6-7pm nightly</li> </ul> <hr/>
<b>Notes</b>	<hr/> Virgin Hotel Chicago is the brand's first hotel, with a flagship location in New York, NY to open soon. Two Virgin Hotels are under construction in the Bay Area, one in San Francisco and one in Milpitas. Virgin Hotels will feature contemporary style, highly functional and efficient yet personalized experiences, ample communal space, and a signature restaurant. <hr/>





## AC BY MARRIOTT



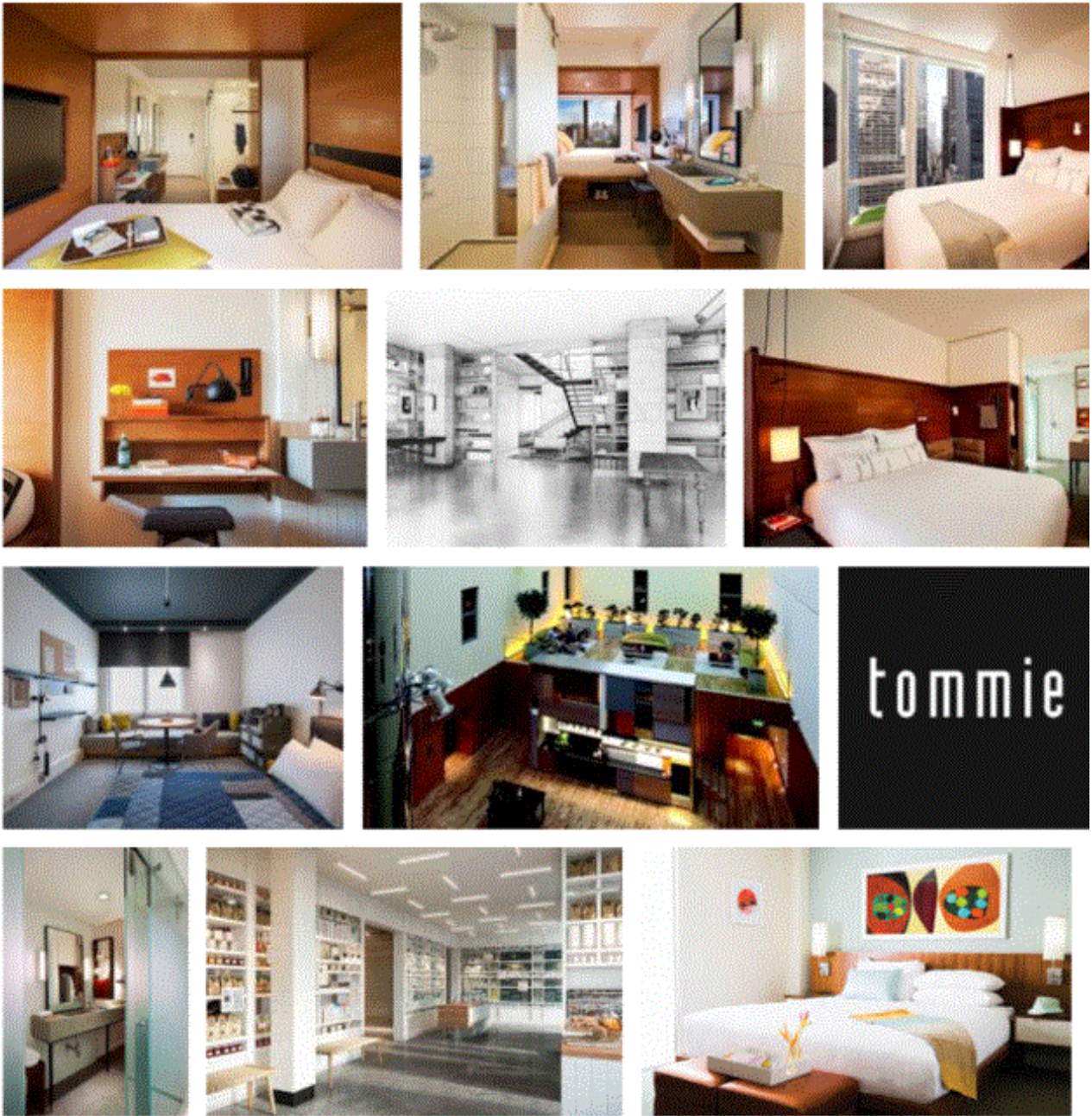




## AC BY MARRIOTT

<b>Name</b>	<b>AC Hotel by Marriot - <i>Stylish Hotels for Urban Spirits</i></b>
<b>Location</b>	<b>San Jose, CA</b>
<b>Affiliation</b>	Marriott
<b>Year Open/Affiliated</b>	2016
<b>Service</b>	Select
<b>Rooms</b>	210
<b>Guestrooms</b>	Guestrooms range from 277 to 350 square feet, depending on market
<b>Meeting Rooms</b>	5
<b>Meeting Space (SF)</b>	3,420
<b>(SF) Per Room</b>	16.3
	In addition to dedicated meeting rooms, AC Hotels' f&b outlets are multifunctional and flexible alternatives to traditional meeting space.
<b>F&amp;B</b>	<p>AC Lounge - small plates and beverage service</p> <p>AC Kitchen - European inspired breakfast featuring made-to-order hot items (for a fee)</p> <p>AC Hotels' will focus on the "B" in F&amp;B, with the bar serving as a focal point of public space. F&amp;B outlets designed to be multifunctional and flexible. Bar features Internet and power outlets.</p>
<b>Recreational Facilities</b>	24/7 Fitness Room with LCD TVs on cardio equipment. A salt water pool
<b>Business Center</b>	AC Library - communal tables that inspire a collaborative atmosphere
<b>Amenities &amp; Services</b>	<ul style="list-style-type: none"> <li>• Complimentary WIFI</li> <li>• Smart TVs in guestrooms to stream your personal content</li> <li>• Purchase ready FF&amp;E in guestrooms</li> <li>• Media salons in certain locations</li> </ul>
<b>Notes</b>	The first AC Hotel was founded in Spain; in 2011, AC Hotels and Marriott formed a joint venture. The first AC Hotel by Marriott in the U.S. opened in New Orleans, LA. Future U.S. locations include Miami, Los Angeles, Chicago, Houston, Philadelphia, and New York.

## TOMMIE HOTELS



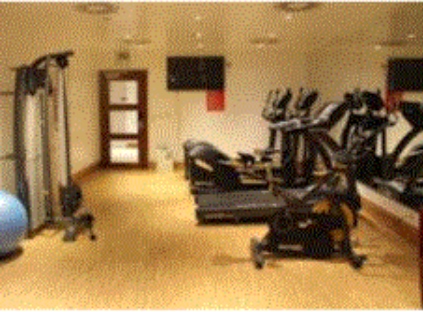


## TOMMIE HOTELS – DESIGN GUIDELINES

<b>Name</b>	<b>tommie - <i>crash pad</i></b>
<b>Location</b>	<b>New York, NY</b>
<b>Location Types</b>	Urban
<b>Affiliation</b>	Commune Hotels
<b>Year Open/Affiliated</b>	2015
<b>Service</b>	Select
<b>Rooms</b>	329; 250
<b>Guestrooms</b>	Micro-unit guestrooms - 160 square feet
<b>Meeting Rooms</b>	N/A
<b>Meeting Space (SF)</b>	N/A
	The exact programming for the meeting space has not been released yet but will be limited, flexible, and blend with the hotel's public spaces.
<b>F&amp;B</b>	Details TBD but will consist of a more casual grab'n'go style option and full bar/lounge and/or rooftop bar.
<b>Recreational Facilities</b>	Fitness center
<b>Business Center</b>	Computer workstations
<b>Amenities &amp; Services</b>	<ul style="list-style-type: none"> <li>• "Help Yourself" Experience - self check-in kiosks, grab'n'go "general store," mobile check-in</li> <li>• Complimentary high-speed WIFI (upgrade for fee)</li> <li>• Ergonomically designed, space efficient guestrooms</li> <li>• "Reading Rooms" - public lounge that will feature games and promote socializing among guests</li> <li>• Custom wood finishes and designs similar to upscale Thompson Hotels</li> </ul>
<b>Notes</b>	tommie is envisioned to be the "younger" version of Commune's Thompson brand and is expected to appeal to the youthfully-minded global traveler (millennials) who are looking for a value. The hotel's guestrooms will be designed to serve as affordable "crash pads" for guests who will spend most of their time out and about exploring the city they are visiting. The public areas will be designed to provide guests the opportunity to interact with each other and will feature interactive multimedia such as customizable music listening booths.



## RADISSON RED





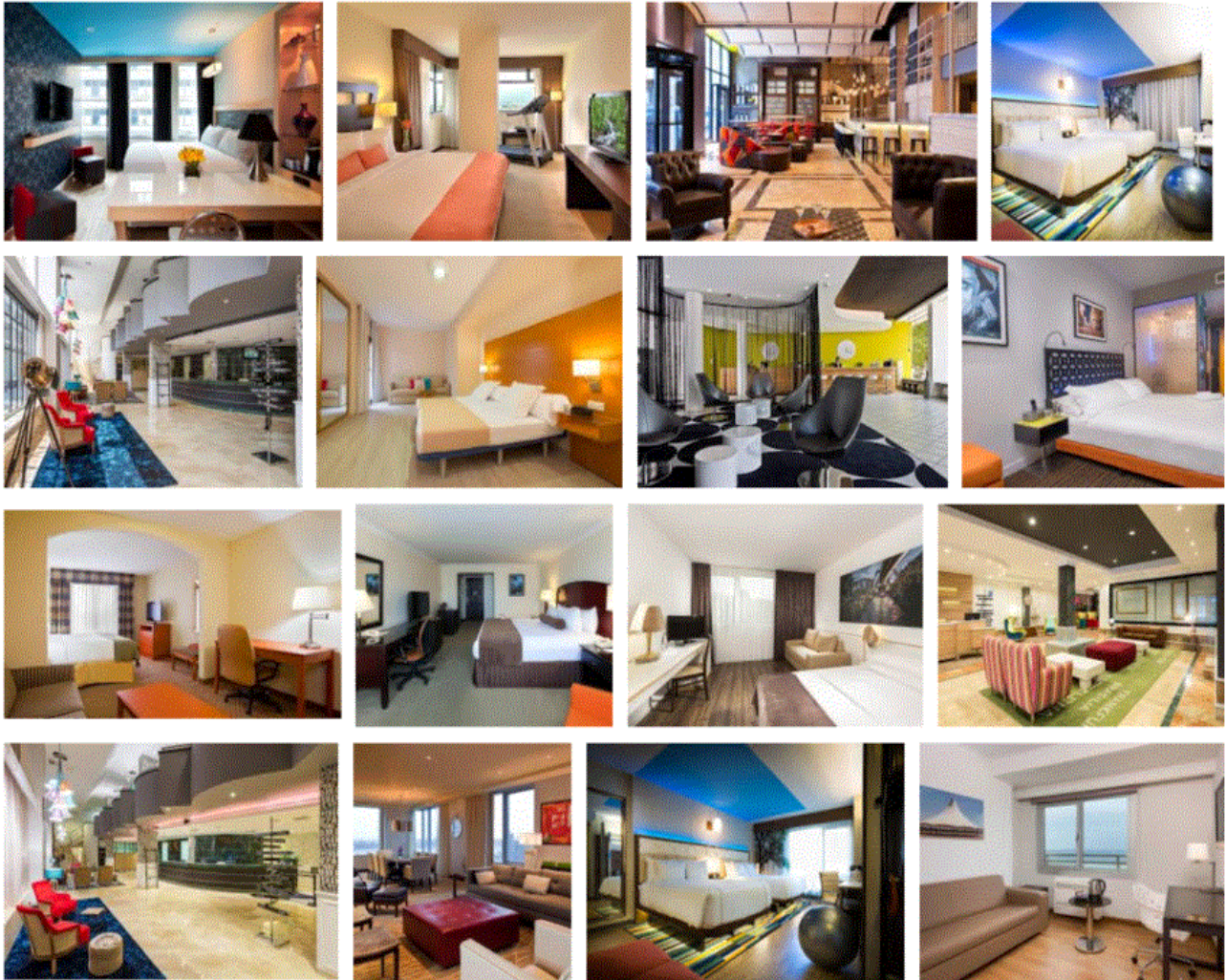
## RADISSON RED – DESIGN GUIDELINES

<b>Name</b>	<b>Radisson Red</b>
<b>Location</b>	<b>US locations TBD</b>
<b>Affiliation</b>	Carlson Rezidor Hotel Group
<b>Year Open/Affiliated</b>	2016
<b>Service</b>	Select
<b>Rooms</b>	Varies
<b>Guestrooms</b>	Average guestroom size will be approximately 280 square feet.
<b>Meeting Rooms</b>	Approx. 1,250 square feet Meeting space will be limited, feature state-of-the-art technology, and designed with flexibility in mind.
<b>F&amp;B</b>	F&B options will include a bar and self-service food options Bar offerings will include coffee, signature cocktails, local beers, snacks, and small plates
<b>Amenities &amp; Services</b>	<ul style="list-style-type: none"><li>• Complimentary WIFI</li><li>• "RED" App - Mobile app that allows guests to check-in, order room service, control temperature, make dinner reservation, live chat with concierge and/or other guests</li><li>• Other amenities TBD</li></ul>
<b>Notes</b>	Radisson Red is envisioned to target the Millennial travelers, offering unique contemporary designs that reflect the culture of each location. Radisson Red will be technologically-driven with a proprietary mobile application that will allow guests to navigate the hotel's amenities and services. The first Radisson Red Hotel will open in Shenyang Hunnan, China in 2016, with more to follow.





## TRYP BY WYNDHAM





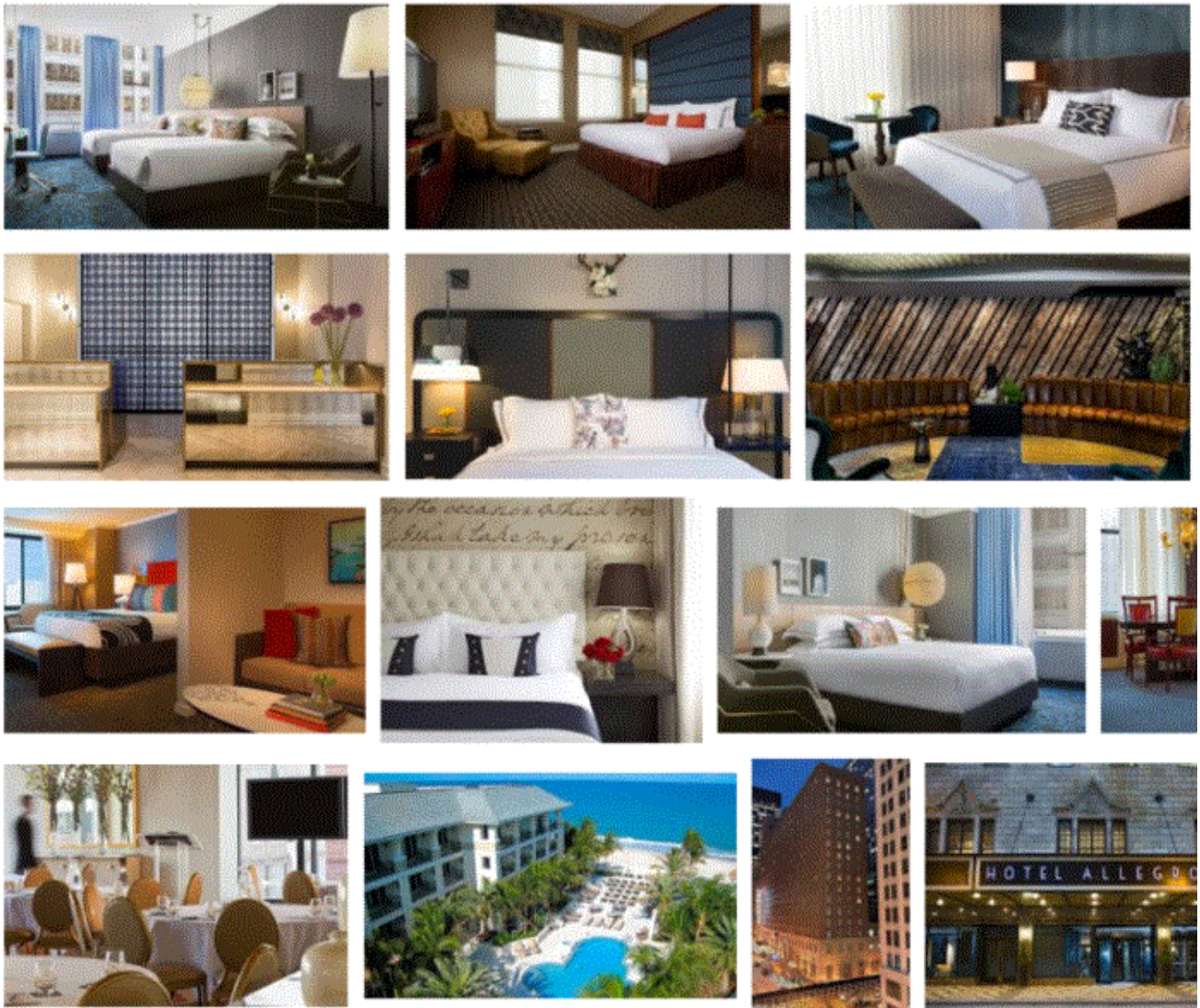


## TRYP BY WYNDHAM – DESIGN GUIDELINES

<b>Name</b>	<b>Tryp - Youthful Energetic</b>
<b>Location</b>	<b>112 locations globally</b>
<b>Location Types</b>	Urban and Suburban
<b>Affiliation</b>	Wyndham Hotels
<b>Year Open/Affiliated</b>	2013
<b>Service</b>	Select
<b>Rooms</b>	180
<b>Guestrooms</b>	Guestrooms range from 277 to 350 square feet, depending on market
<b>Meeting Rooms</b>	5
<b>Meeting Space (SF)</b>	3,420
<b>(SF) Per Room</b>	19.0
	Flexible and blend with the hotel's public spaces. Adjustable lighting, a sound system and digital AV equipment are to be incorporated for internet connectivity, presentations and demonstrations. These areas are also serviced by food and beverage offerings to suit breakfast, lunch, dinner and break out sessions.
<b>F&amp;B</b>	Gastrobar is the zone within plaza central where the communal table, bar, and café are located. Ideally these areas are in proximity to each other and allow for guests to move freely between them. Breakfast, tapas, wine, beer are served and other activities occur here from the morning through to the evening.
<b>Recreational Facilities</b>	Fitness center
<b>Business Center</b>	Centro also serves as an open concept business center as it features wireless internet and printers
<b>Amenities &amp; Services</b>	<ul style="list-style-type: none"> <li>• Signature check-in pods, back wall and sign post.</li> <li>• Complimentary high-speed WIFI (upgrade for fee)</li> <li>• Ergonomically designed, space efficient guestrooms</li> <li>• The Library may be incorporated as its own room provided that space is available</li> <li>• Urban energy is referenced subtly in the design through the use of offset planes visual “objects in motion”, and eclectic furnishings in spirited color palettes.</li> </ul>
<b>Notes</b>	Every TRYP will reflect the city and neighborhood in which it lives. Local references can be discovered throughout the hotel in objects, images and materials. Designers are encouraged to source local pieces or curate “found objects” to create a unique look and to build a relationship with the hotel’s community. Plaza Central is anchored by Centro. It is the primary seating area where guests can lounge, enjoy food and drinks on casual, continental height tables, work, meet or simply people watch while reading.



KIMPTON HOTELS





## KIMPTON HOTELS – DESIGN GUIDELINES

<b>Name</b>	<b>Kimpton Hotels - <i>tailored—from design to menus</i></b>
<b>Location</b>	<b>59 hotels and 77 restaurants, bars and lounges in 30 U.S. cities and abroad</b>
<b>Location Types</b>	Urban , Suburban, and Resort
<b>Affiliation</b>	IHG
<b>Year Open/Affiliated</b>	1981
<b>Service</b>	Full-service
<b>Rooms</b>	200
<b>Guestrooms</b>	Guestrooms range from 300 to 400 square feet, depending on market
<b>Meeting Rooms</b>	5
<b>Meeting Space (SF)</b>	5,000
<b>(SF) Per Room</b>	25.0
	Flexible and functional hotel meeting spaces. These areas are also serviced by food and beverage offerings to suit breakfast, lunch, dinner and break out sessions.
<b>F&amp;B</b>	Partnering with celebrity chefs with concepts such as Postrio, Masa and Fifth Floor to create destination food and beverage in our properties. Options include and not limited to Intimate 40-seat lounge, a high-energy rooftop lounge, highly-programmed backyard pool or 120-seat dining room.
<b>Recreational Facilities</b>	Fitness center featuring state-of-the-art cardio machines; full-service spa
<b>Amenities &amp; Services</b>	<ul style="list-style-type: none"> <li>• Complimentary WIFI</li> <li>• Smart TVs in guestrooms to stream your personal content</li> <li>• Standard environmentally friendly products and practices, such as eco-friendly cleaning supplies and recycling</li> <li>• 100% pet friendly</li> </ul>
<b>Notes</b>	Kimpton enchants guests through a mix of boutique destinations bound together by warm, genuine service, superlative style, distinctive perks, and addictive irreverence. True boutique experience responding to the surrounding environment and delivering an experience that is authentic and reflective of the location.



## 8. Statement of Assumptions and Limiting Conditions

1. This report is set forth as a market study of the proposed subject hotel; this is not an appraisal or opinion of value.
2. This report is to be used in whole and not in part.
3. No responsibility is assumed for matters of a legal nature, nor do we render any opinion as to title, which is assumed marketable and free of any deed restrictions and easements. The property is evaluated as though free and clear unless otherwise stated.
4. We assume that there are no hidden or unapparent conditions of the sub-soil or structures, such as underground storage tanks, that would impact the property's development potential. No responsibility is assumed for these conditions or for any engineering that may be required to discover them.
5. We have not considered the presence of potentially hazardous materials or any form of toxic waste on the project site. The consultants are not qualified to detect hazardous substances, and we urge the client to retain an expert in this field if desired.
6. The Americans with Disabilities Act (ADA) became effective on January 26, 1992. We have assumed the proposed hotel would be designed and constructed to be in full compliance with the ADA.
7. We have made no survey of the site, and we assume no responsibility in connection with such matters. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property. It is assumed that the use of the described real estate will be within the boundaries of the property described, and that no encroachment will exist.
8. All information, financial operating statements, estimates, and opinions obtained from parties not employed by Hospitality Link International, Inc., are assumed true and correct. We can assume no liability resulting from misinformation.
9. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.
10. The property is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including a liquor license where appropriate), and that all licenses, permits,



certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.

11. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
12. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
13. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard per-diem fees and travel costs are paid prior to the appearance.
14. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
15. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.
16. The quality of a lodging facility's on-site management has a direct effect on a property's economic viability. The financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.
17. The financial analysis presented in this report is based upon assumptions, estimates, and evaluations of the market conditions in the local and national economy, which may be subject to sharp rises and declines. Over the projection period considered in our analysis, wages and other operating expenses may increase or decrease because of market volatility and economic forces outside the control of the hotel's management. We assume that the price of hotel rooms, food, beverages, and other sources of revenue to the hotel will be adjusted to offset any increases or decreases in related costs. We do not warrant that our estimates will be attained, but they have been developed based upon information obtained during the course of our market research and are intended to reflect the expectations of a typical hotel investor as of the stated date of the report.
18. This analysis assumes continuation of all Internal Revenue Service tax code provisions as stated or interpreted on either the date of value or the date of our field inspection, whichever occurs first.
19. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three



or more decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.

20. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.
21. Evaluating and comprising financial forecasts for hotels is both a science and an art. Although this analysis employs various mathematical calculations to provide value indications, the final forecasts are subjective and may be influenced by our experience and other factors not specifically set forth in this report.



## Jaime Law

Director



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### Properties Evaluated (Partial List)

#### California

Ace Hotel, Proposed, Palm Springs  
Setai San Diego Hotel, Proposed, San Diego  
Taj Campton Place Hotel, San Francisco  
Clift Hotel, San Francisco  
Fairmont Hotel, San Francisco  
Four Seasons Hotel, San Francisco  
Hotel Monaco, San Francisco  
Westin Saint Francis, San Francisco  
Huntley Hotel, Santa Monica  
Loews Hotel, Santa Monica  
Fairmont Sonoma Mission Inn, Sonoma  
Hyatt Regency La Jolla at Aventine, San Diego  
Proposed Hotel, La Jolla  
Grand Del Mar, San Diego  
Claremont Resort & Spa, Berkeley  
JW Marriott San Francisco, San Francisco  
Lane Field Hotels, San Diego  
Gaiage House, Glen Ellen  
Rancho Bernardo Inn, San Diego  
La Costa Resort & Spa, Carlsbad  
Ritz-Carlton, Half Moon Bay  
Rosewood Sand Hill, Menlo Park  
Manchester Grand Hyatt San Diego, San Diego  
Proposed Infusion Beach and Hotel, Palm Springs  
Carneros Inn, Napa Valley  
Calistoga Ranch, Napa Valley

### Career Summary

Jaime Law is a Director at Hospitality Link International, Inc. Mr. Law is a seasoned hospitality real estate professional focusing on consulting and advisory, as well as brokerage services in the hospitality sector. Prior to joining Hospitality Link International, Inc., Mr. Law was Associate in the Marcus and Millichap Hospitality Group and Vice President at HVS Consulting and Valuation. In his role at HVS, for over a decade, he performed real estate due diligence, appraisals, consulting, advisory, and feasibility studies for corporate and institutional clients on hundreds of assignments exceeding \$13 billion of hotel, resort, gaming, and golf course real estate for both existing and proposed properties. He previously held several hotel operations roles with Marriott and Fairmont Hotels including revenue management, accounting, and F&B. Mr. Law holds a BS in Hospitality Industry Management degree from the University of San Francisco.

### Specialty

- Consulting and Advisory Services
- Commercial Real Estate Investment Sales
- Hotel and Resort Properties

### Professional Designations

- Real Estate License – State of California (#01987412)

### Education

- BS, University of San Francisco – Hospitality Industry Management

### Select Clients

- Bank of the Orient
- City of San Jose
- EB5 Capital
- Huntington Hotel Group
- R.C. Hedreen Company
- Portman Holdings
- Stanford University
- Wells Fargo
- Thayer Lodging Group
- Westmont Hospitality Group
- The Procaccianti Group
- Unified Port of San Diego

#### Hawaii

Marriott Wailea Beach Resort, Wailea  
Grand Wailea A Waldorf Astoria Resort, Wailea  
Sheraton Maui Resort & Spa, Lahaina  
Moana Surfrider Westin Resort & Spa, Waikiki  
Royal Hawaiian, Waikiki  
Sheraton Waikiki Beach, Waikiki  
Sheraton Princess Kaiulani, Waikiki  
Proposed King Kalakuhua Plaza, Waikiki  
Proposed Makaha Vallery Resort  
Hilton Waikoloa Village Resort, Waikoloa  
Four Seasons Resort Maui, Wailea  
Proposed Coco Palms Resort, Kauai  
Doubletree Alana Waikiki, Waikiki  
Hilton Hawaiian Village Waikiki Beach Resort, Waikiki

#### Washington

DoubleTree by Hilton Arctic Club Hotel, Seattle  
Hotel 1000, Seattle  
The Roosevelt Hotel, Seattle  
Renaissance Madison, Seattle  
W Hotel Seattle, Seattle  
Proposed Seattle First Avenue Hotel, Seattle  
Proposed Convention Hotel at Greyhound Site, Seattle

#### Arizona

JW Marriott Camelback Inn, Scottsdale  
Westin La Paloma, Tucson  
JW Marriott Starr Pass Resort and Spa, Tucson  
Crowne Plaza Phoenix-Airport, Phoenix  
Hyatt Place, Mesa

#### Massachusetts

Four Seasons, Boston  
Fairmont Copley Plaza, Boston

#### Nevada

Rio All Suite Hotel & Casino, Las Vegas  
Flamingo Las Vegas, Las Vegas  
Paris Las Vegas, Las Vegas

#### International

Proposed Hard Rock Hotel and Casino Aruba  
Renaissance Aruba Resort & Casino  
Renaissance Curacao Resort & Casino  
Proposed Casino Monticello, Santiago, Chile  
Proposed Casino at Proposed Marina Papagayo Village, Guancaste, Costa Rica  
Rip Jack Inn, Playa Grande, Costa Rica  
Proposed Capella Pedregal, Cabo San Lucas  
Four Seasons Mexico Distrito Federal  
Four Seasons Punta Mita, Mexico  
The Westin Grand Cayman Seven Mile Beach Resort & Spa

## Holden Lim

President



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### Specialty

- Commercial Real Estate Investment Sales
- Finance and Advisory Services
- Hotel and Resort Properties

### Select Clients

- Ashford Hospitality Trust
- Athens Group
- Canyon Equity
- Chartres Lodging Group
- Felcor Lodging Trust
- Franklin Croft
- Fremont Realty Capital
- HCV Pacific Partners
- JMI Realty
- Joie de Vivre Hospitality
- Kimpton Hotel & Restaurant Group
- Outrigger Enterprises
- Rockpoint Group
- The Hotel Group
- The Procaccianti Group
- Westbrook Partners

### Professional Designations

- Licensed Real Estate Broker – State of California (#01328565)

### Education

- MBA, Golden Gate University - Finance
- BBA, University of Hawaii - Travel Industry Management

### Career Summary

Holden Lim is the President of Hospitality Link International, Inc. During the course of his 29-year career, Mr. Lim has completed over \$4.0 billion in real estate transactions, representing a variety of structures that include dispositions, debt financings and equity recapitalizations. Mr. Lim has strong relationships with institutional investors, private equity funds, investment banks, REITs, high net worth investors, foreign investors and developers as well as insurance companies, domestic and foreign banks and debt funds.

Prior to Hospitality Link International, Inc., Mr. Lim was Managing Director in the San Francisco office of HFF, LP and was primarily responsible for institutional-grade hotel and resort property transactions throughout North America. Previously, Mr. Lim was Senior Director with Cushman & Wakefield Sonnenblick Goldman for 11 years. Some of the deals with which he was intimately involved include the sale of the Westin St. Francis, JW Marriott San Francisco and San Diego Hilton Gaslamp Quarter, the financing of the Ilikai Hotel (currently The Modern Honolulu Hotel), Montage Beverly Hills Hotel, Spa & Residences, AMANGANI, Beverly Hilton and Hilton Los Cabos Beach & Golf Resort, and the joint-venture equity raise and financing of the OHANA Waikiki Beachcomber. Mr. Lim also has hotel operations and consulting experience, including a variety of management positions at the Westin St. Francis and later as a consultant with HVS International in San Francisco.

### Representative Transactions

PROPERTY	LOCATION		
Beverly Hilton	Beverly Hills, CA	Financing	\$300,000,000
Westin St. Francis	San Francisco, CA	Investment Sale	\$243,000,000
Montage Hotel, Spa & Residences	Beverly Hills, CA	Financing	\$200,000,000
Renaissance Ilikai (renamed The Modern)	Honolulu, HI	Financing	\$114,900,000
Hyatt Regency Sacramento	Sacramento, CA	Financing	\$100,000,000
Pan Pacific Hotel (renamed JW Marriott)	San Francisco, CA	Investment Sale	\$95,000,000
Hilton San Diego Gaslamp Quarter	San Diego, CA	Investment Sale	\$85,000,000
Wyland Waikiki Resort (now Courtyard Waikiki)	Honolulu, HI	Financing	\$80,000,000
The Ritz-Carlton, Lake Tahoe	Truckee, CA	Investment Sale	\$73,600,000
181 Fremont Street Land Site	San Francisco, CA	Investment Sale	\$71,000,000
Phoenix Inns Portfolio	Various	Financing	\$63,000,000
Hotel Palomar Philadelphia	Philadelphia, PA	Financing	\$51,000,000
Embassy Suites Anaheim-Orange	Orange, CA	Investment Sale	\$48,400,000
Huntington Hotel	San Francisco, CA	Investment Sale	\$42,500,000
Courtyard Sunnyvale	Sunnyvale, CA	Financing	\$40,600,000
AC Marriott	San Jose, CA	Construction	\$29,400,000
Galleria Park Hotel	San Francisco, CA	Investment Sale	\$25,000,000
Holiday Inn Santa Barbara-Goleta	Goleta, CA	Investment Sale	\$24,000,000
La Playa Hotel & Cottages	Carmel-by-the-Sea, CA	Investment Sale	\$23,650,000
Hotel Renew	Honolulu, HI	Investment Sale	\$23,500,000
Residence Inn Coconut Grove	Coconut Grove, FL	Investment Sale	\$21,820,000
Residence Inn Birmingham	Birmingham, AL	Investment Sale	\$20,000,000
Hilton Ontario Airport	Ontario, CA	Investment Sale	\$18,500,000
Naniloa Resort	Hilo, HI	Financing	\$18,500,000
Tremont Plaza Hotel	Baltimore, MD	Financing	\$18,000,000
AMANGANI Resort	Jackson Hole, WY	Financing	\$16,360,000
Hampton Inn & Suites Camarillo	Camarillo, CA	Investment Sale	\$15,700,000
Residence Inn Clearwater	Clearwater, FL	Investment Sale	\$15,000,000
Holiday Inn Express & Suites Fort Worth	Fort Worth, TX	Financing	\$13,900,000
Staybridge Suites Savannah	Savannah, GA	Investment Sale	\$13,615,000
Laurel Inn	San Francisco, CA	Financing	\$10,000,000
Hyatt Northstar Lodge	Truckee, CA	Investment Sale	\$9,850,000
Holiday Inn Express Mission Bay	San Diego, CA	Investment Sale	\$5,800,000
Dolphin Inn	Carmel-By-The-Sea, CA	Investment Sale	\$4,700,000