

MEMORANDUM

To: Justin Derby, MLC Holdings, Inc.

From: Ben Sigman and Paige Peltzer

Subject: Hotel Market Review; EPS #171040

Date: April 14, 2017

The Economics of Land Use



The proposed Mission Crossings project ("Project") in Hayward will include a hotel with 93 rooms, over 7,000 square feet of new retail, and a 140-unit for-sale residential town home community. MLC Holdings, Inc. (MLC) engaged Economic & Planning Systems, Inc. (EPS) to review hotel market conditions and produce a high-level assessment of market demand for the proposed hotel.

Key Findings

There are no upscale hotels in Hayward and few nearby. This market review identifies over 3,150 upscale hotel rooms within 10 miles of the Project. The closest upscale hotels, however, are the Hilton Garden Inn in San Leandro and the Crowne Plaza in Union City. The nearest upscale extended stay hotels, the Residence Inn in Newark and the Residence Inn in Pleasanton, are even farther away.

Occupancy and room rates in the upscale market are quite strong, largely due to a lack of new hotel development over the past decade. With the newest hotels in the market dating back to 2002, upscale hotel room supply has not kept pace with demand growth. As a result, average room rates have climbed rapidly to \$165 and occupancy now stands at 80 percent, well above the industry standard. The performance of upscale extended stay hotels in the market is even stronger.

The Residence Inn Project is the only planned Hayward hotel that will satisfy the unique extended stay market niche. There are approximately 670 upscale hotel rooms proposed in the market, but fewer than 200 are anticipated to be extended stay rooms. The other proposed upscale hotel in Hayward will not offer in-suite kitchen amenities, an important point of distinction among consumers. The only other proposed upscale extended stay hotel in the market is in Newark, about 10 miles away.

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Introduction

This Hotel Market Review establishes the competitive landscape for the proposed Project and assesses relevant market conditions to evaluate the market potential for the Project. The Hotel Market section of the Review defines the geographic boundary of the hotel trade area and identifies the competitive “market scale” (i.e., market segment) within which the Project will compete. After establishing the appropriate competitive market, the Review presents a Hotel Market Analysis, which assesses historic data on market performance, as well as the outlook for future hotel development.

Hotel Market

Geographic Trade Area

A trade area is a geographic region that contains the majority of the competitive supply that will affect the performance of a hotel project. Trade areas are influenced by a variety of factors, including the presence of the targeted customer base, the location of key competitors and their relative distance, and geographic and psychological barriers. Hotel establishments outside a given trade area do not compete directly with hotels in the trade area. There is no single or definitive methodology for establishing a trade area as the trade area typically varies with the type of hotel or overall hotel size involved. This analysis considers an expansive 10-mile radius around the project site located at 25501 Mission Boulevard. This trade area captures potentially competitive hotels as far north as Oakland International Airport, extends south to Newark, and east to Dublin. Downtown Oakland, Silicon Valley, and the eastern areas of the Tri-Valley are considered separate markets that do not directly compete with hotels in Hayward.

Hotel Market Scale

Smith Travel Research (STR), the leading provider of market data on the hotel industry, provides a universally-regarded classification scale for hotels. STR’s market scale distinguishes hotels into different tiers based largely on their Average Daily Rate (ADR).¹ The STR scale is as follows, listed from lowest to highest daily rates:

Economy	Midscale	Upper Midscale	Upscale	Upper Upscale	Luxury
\$	\$\$	\$\$\$	\$\$\$\$	\$\$\$\$\$	\$\$\$\$\$\$

“Luxury” hotels consist of the top 15 percent average room rates. Hotels with average room rates that are approximately 70 to 85 percent of what is achieved at the top end of the market are considered “upper upscale” and “upscale” hotels. Hotel market scale is an important factor in establishing the competitive market for a hotel project, as each scale caters to a different sub-segment of customers. For example, an “Economy” hotel introduced into a trade area where customers are consumers of Luxury scale hotel rooms would not satisfy hotel demand.

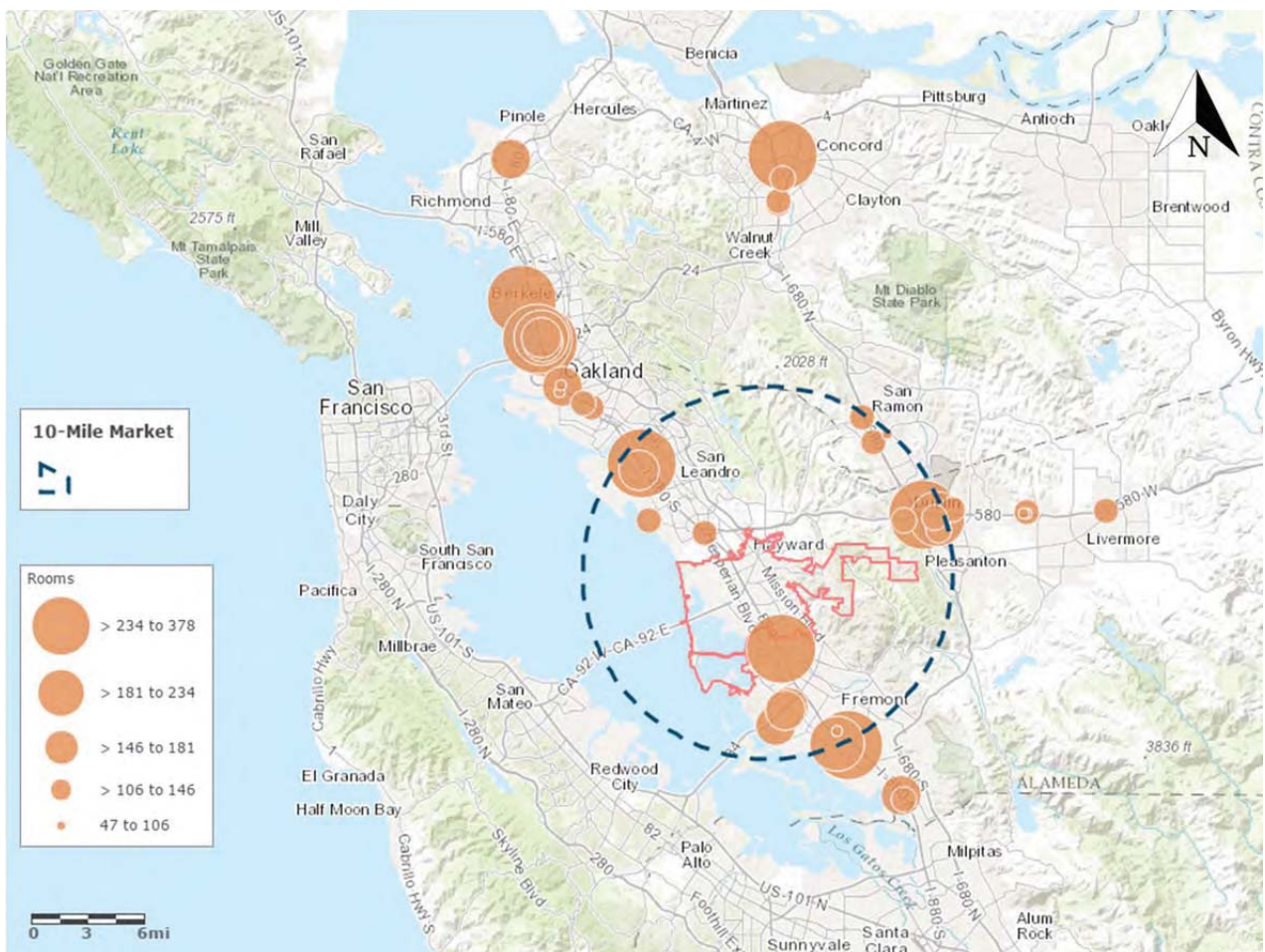
¹ Average daily rate (ADR) is a measure of the average rate paid for rooms sold and is calculated by dividing room revenue by rooms sold at each hotel property. ADR commonly is lower than the “rack rate” (published full price) which does not reflect pre-booking and other discounts.

Market Orientation of Proposed Project

MLC has indicated that Hayward currently is underserved by higher-quality hotels that satisfy the needs of Cal State University East Bay staff and visitors, local business travelers, and the residents of Hayward. To address this unmet demand, MLC and its hotel partners have programmed Mission Crossings with a Residence Inn by Marriot. Residence Inn is an upscale, extended stay hotel. Residence Inns are distinguished from other upscale hotels by their extended stay format, which caters to the needs of long-term guests. Most notably, every room in the hotel has a kitchen with full-size refrigerator and stove. The Mission Crossings Residence Inn is positioned to serve the local demand for hotels in this unique market segment.

Given the proposed Project's market orientation, this Review considers potential demand for upscale hotels and upscale extended stay hotels in particular. Broadly in the East Bay (Alameda and Contra Costa Counties), upscale hotel clusters exist around Downtown Oakland, the Oakland International Airport, the City of Concord, the 580/680 interchange in the Tri-Valley, and in the City of Fremont. There is a dearth of upscale hotels in the area immediately surrounding the City of Hayward. **Figure 1** maps existing upscale hotels in the East Bay.

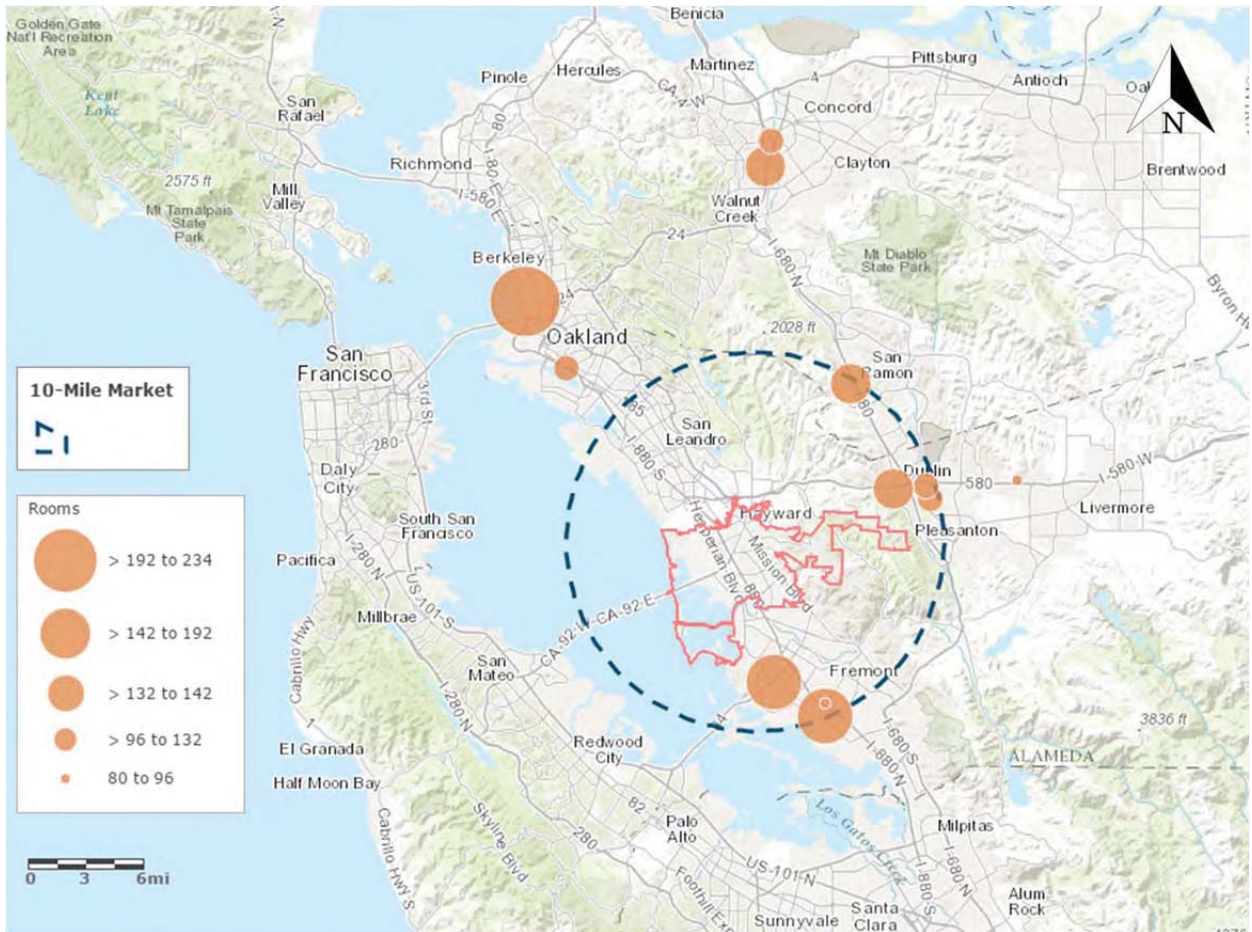
Figure 1 Existing Upscale Hotels in the East Bay



Source: Smith Travel Research

The proposed project will compete most directly with upscale extended stay hotels in the trade area. Today, the trade area contains eight extended stay hotel properties, located near the City of Fremont and in the Tri-Valley area to the east. The City of Hayward does not currently have any extended stay upscale hotels. **Figure 2** maps upscale extended stay hotels in the trade area and throughout the East Bay. A complete list of upscale properties in the trade area is presented in **Figure 3**, including detail on each hotel's market orientation (extended stay vs. traditional), location (by city), year built, and room count. The hotels in **Figure 3** make up the competitive market for the proposed Project.

Figure 2 Existing Upscale Extended Stay Hotels in the East Bay



Source: Smith Travel Research

Figure 3 Upscale Hotels in the 10-Mile Trade Area

Name of Establishment	City	Open Date	Rooms	
			Count	Share of Total
Extended Stay				
Homewood Suites Newark Fremont	Newark	Sep 1999	192	6%
Residence Inn Newark Silicon Valley	Newark	Sep 2002	168	5%
Hyatt House San Ramon	San Ramon	Sep 2002	142	5%
Residence Inn Pleasanton	Pleasanton	Aug 1999	135	4%
Hyatt House Pleasanton	Pleasanton	Jul 1998	128	4%
Larkspur Landing Pleasanton	Pleasanton	Aug 1997	124	4%
Residence Inn San Ramon	San Ramon	Aug 1990	106	3%
Residence Inn Fremont Silicon Valley	Fremont	May 1985	<u>80</u>	<u>3%</u>
Subtotal			1,075	34%
Other Upscale				
DoubleTree Pleasanton @ The Club	Pleasanton	Dec 1985	292	9%
Crowne Plaza Silicon Valley North Union City	Union City	Jul 1983	268	8%
Radisson Hotel Oakland Airport	Oakland	May 1963	266	8%
Four Points by Sheraton Pleasanton	Pleasanton	Oct 1985	214	7%
Courtyard Newark Silicon Valley	Newark	Jun 2002	181	6%
aloft Hotel Silicon Valley	Newark	Aug 2000	172	5%
Courtyard Oakland Airport	Oakland	Feb 2001	156	5%
Courtyard Pleasanton	Pleasanton	Sep 1986	145	5%
Courtyard San Ramon	San Ramon	Apr 1998	136	4%
The Marina Inn On San Francisco Bay	San Leandro	Jun 1985	130	4%
Hilton Garden Inn Oakland San Leandro	San Leandro	Dec 2002	<u>119</u>	<u>4%</u>
Subtotal			2,079	66%
TOTAL			3,154	100%

Sources: Smith Travel Research; Economic & Planning Systems, Inc.

Hotel Market Analysis

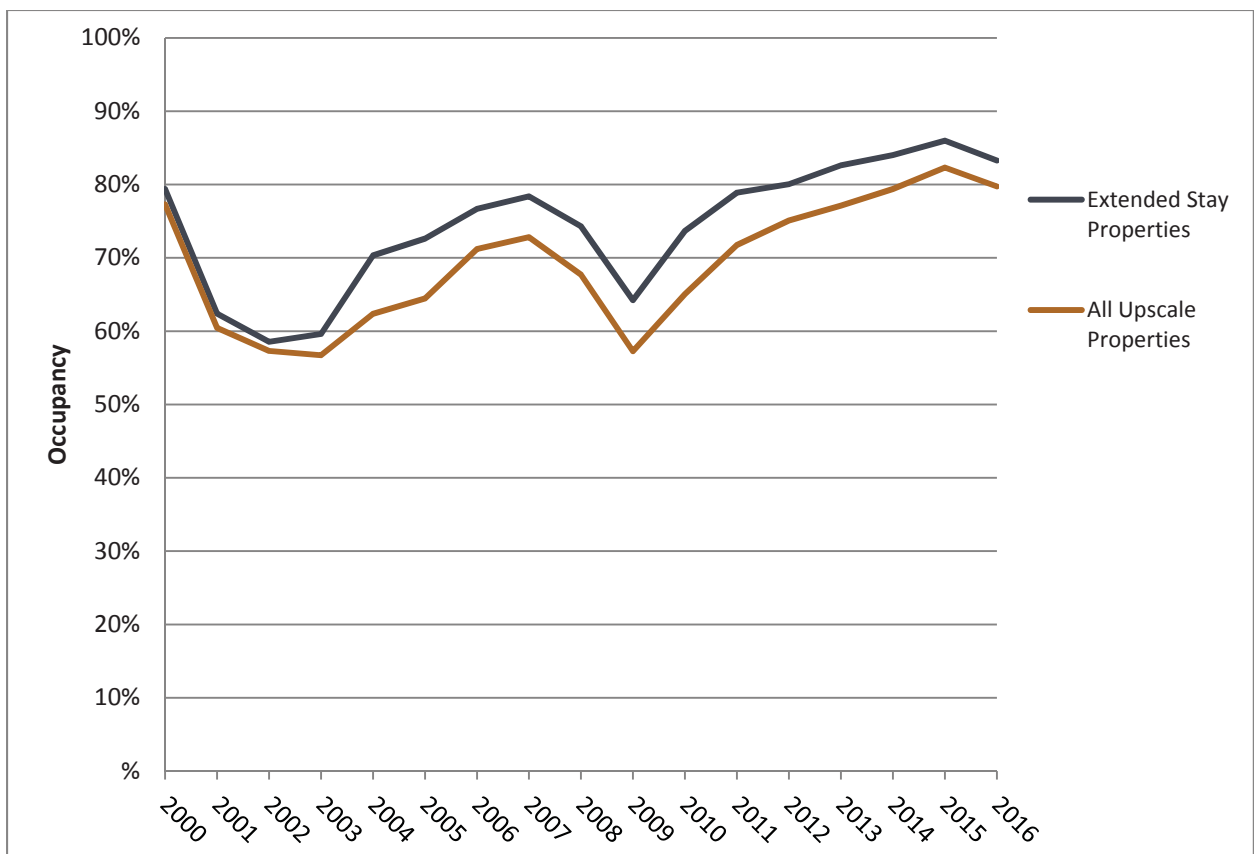
To assess demand for the proposed hotel, EPS reviewed the proposed Project and identified the competitive market. EPS acquired historical hotel market performance data, analyzed demand trends, and considered potential future hotel competition. As previously noted, EPS studied the East Bay market broadly and focused on hotels within the 10-mile trade area. The data reveal that while there are over 3,150 upscale hotel rooms within 10 miles of the project site, the hotel supply in the market has remained unchanged for more than a decade.

Hotel Market Trends

Occupancy

Occupancy rates for upscale rooms in the trade area and in the East Bay now are at 80 plus percent, which is significantly higher than the roughly 70 percent occupancy rate required to maintain economic viability.² Extended stay properties have maintained a slightly higher occupancy rate than all upscale properties in the trade area, with 2016 occupancy of 83.3 percent. Occupancy rates in the broader East Bay have closely tracked these local market trends, with 2016 extended stay occupancy in the East Bay reaching 83.1 percent.

Figure 4 Hotel Upscale Room Occupancy Trends in 10-Mile Trade Area



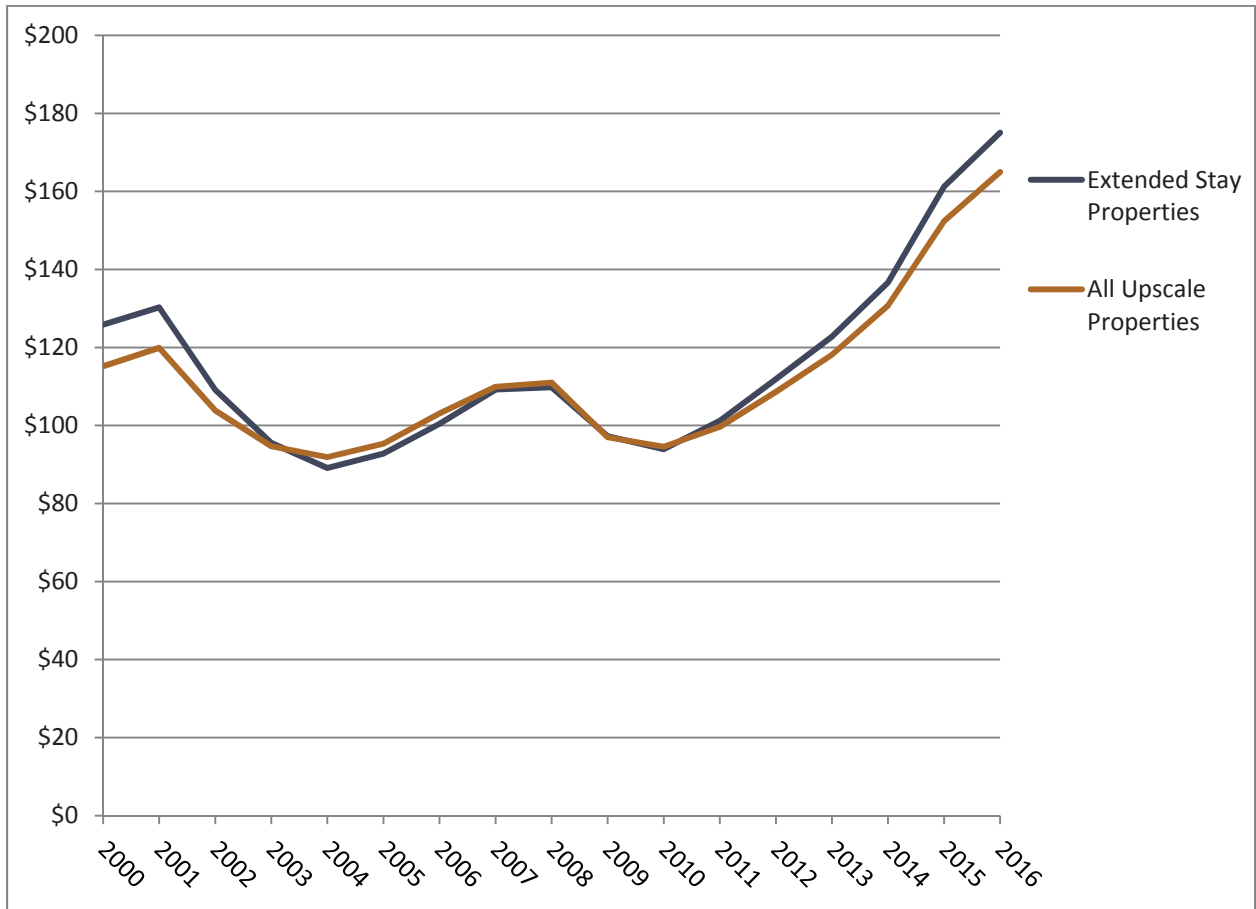
Source: Smith Travel Research

² It is standard for hotel operators to expect a certain amount of frictional vacancy at all times and to strive to achieve a vacancy of 70 percent or higher.

Average Daily Room Rates

As further indication of a strong hotel market, the average daily rates for upscale properties in the trade area and East Bay have been on the rise since 2010. Average daily rate is a measure of the average rate paid for rooms sold and is calculated by dividing room revenue by rooms sold at each hotel property.³ Following the 2008 recession, average daily rates for extended stay properties in the trade area rose from about \$94 in 2010 to \$175 in 2016, an increase of more than 85 percent in six years, as shown in **Figure 5** below.

Figure 5 Average Upscale Daily Room Rate Trends in 10-Mile Trade Area



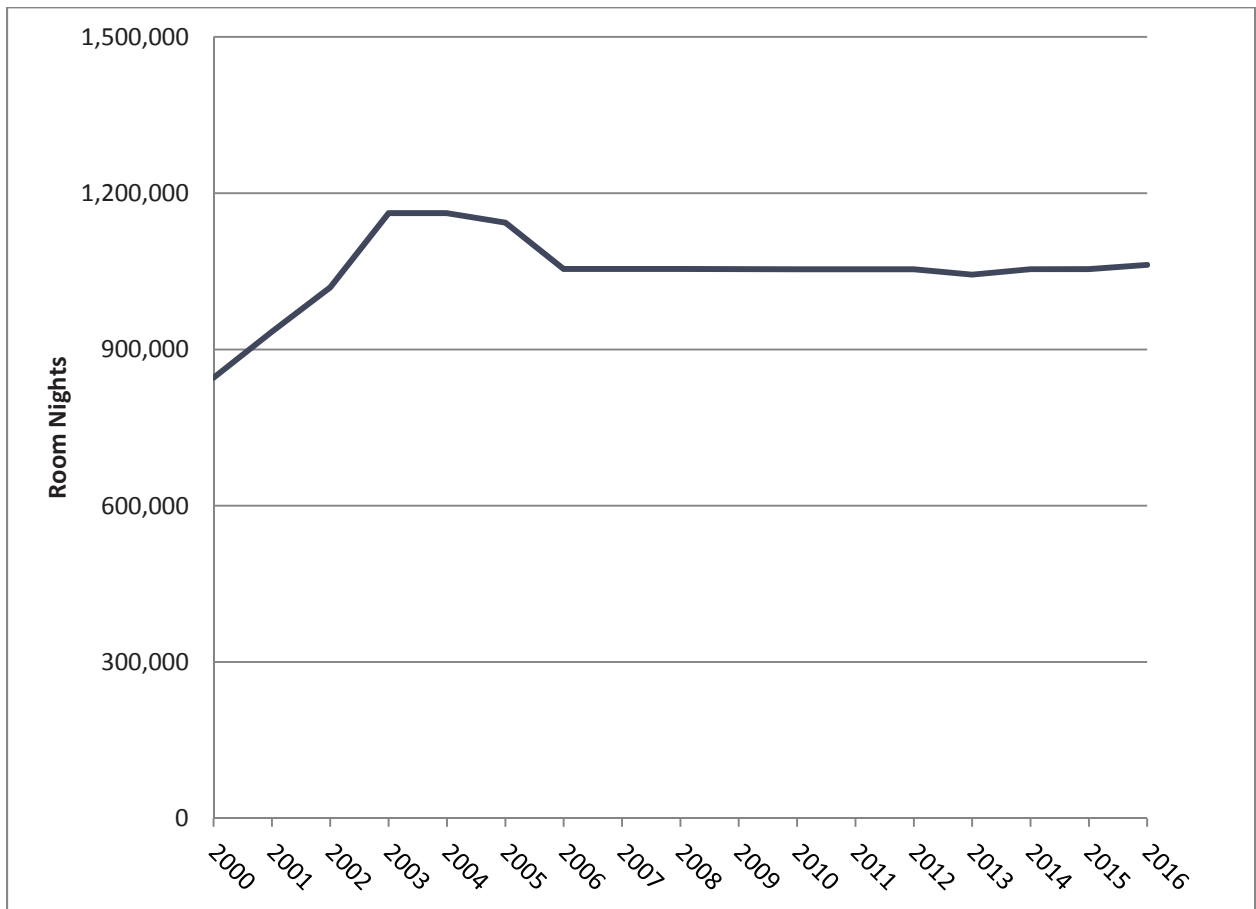
Source: Smith Travel Research

³ Smith Travel Research

Room Night Supply History and Outlook

The most recently constructed upscale hotels in the trade area were delivered in 2002, over a decade ago. Since then, hotel supply growth has been stagnant. As shown in **Figure 6**, STR data reveal a modest decline in room night supply between 2003 and 2006, then a flatlining of inventory. In the face of growing demand, this lack of supply growth has led to the spiking of occupancy and room rates described above. These market conditions, particularly the extraordinary occupancy achieved, reveal the strong potential for new upscale hotels, and upscale extended stay hotels especially, to enter the market.

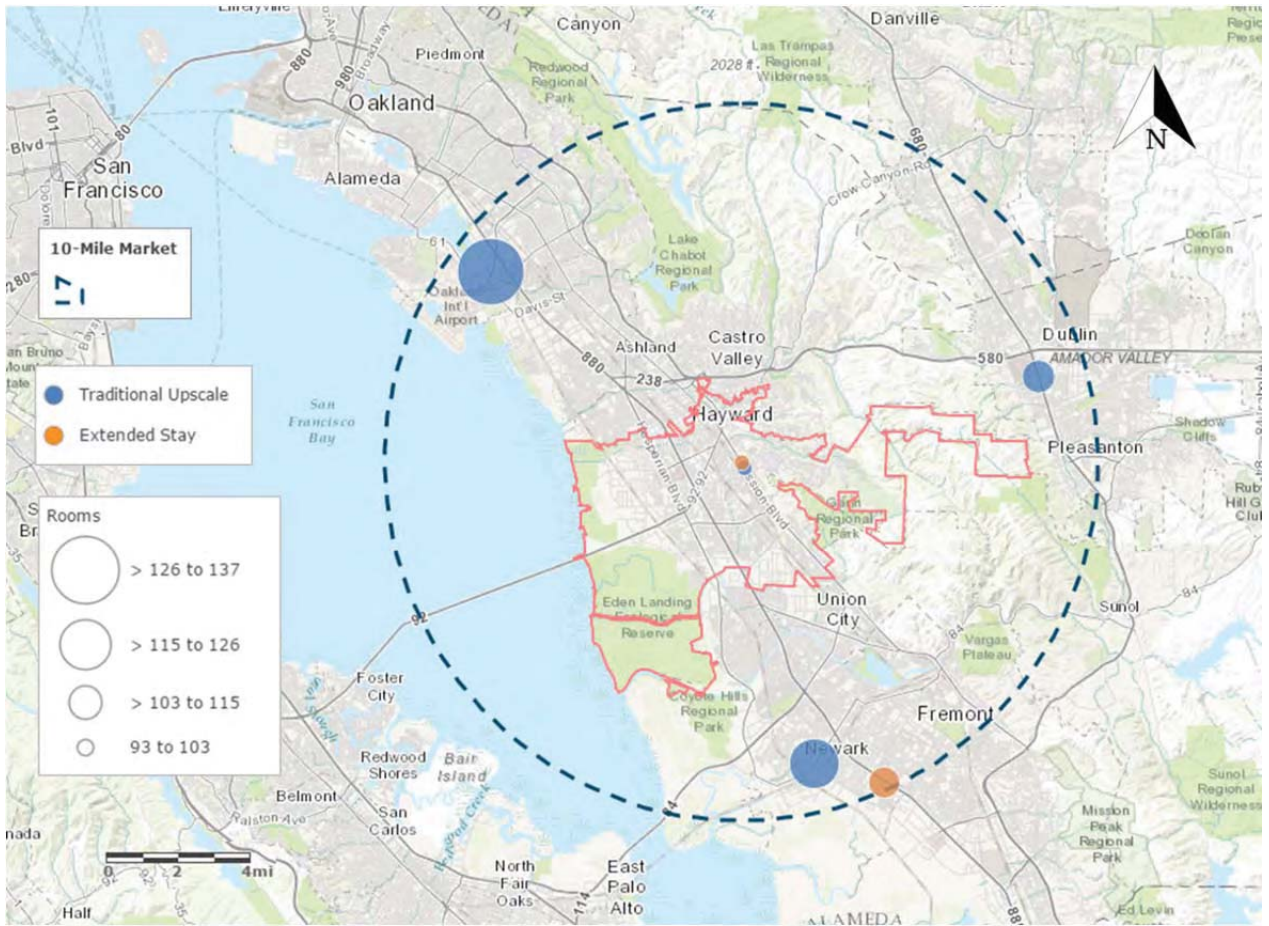
Figure 6 Historical Upscale Room Night Supply in the 10-Mile Trade Area



Source: Smith Travel Research

Looking forward, a number of planned hotel projects may be developed in the trade area. The Review identified proposed projects, including projects with development applications submitted to Cities within the trade area. While there are eight upscale hotels planned for the trade area, only two are in Hayward and only two are extended stay hotels (including the Project). A total of 666 upscale rooms are planned for the trade area, but fewer than 200 rooms will satisfy the extended stay market segment. The proposed Project will be the only upscale extended stay hotel in Hayward. **Figure 7** maps the proposed upscale hotels in the trade area. **Figure 8** details each hotel's market orientation, location, anticipated opening, and room count.

Figure 7 Planned Upscale Hotels in the East Bay



Source: Smith Travel Research

Figure 8 **Planned Upscale Hotels in the 10-Mile Market Area**

Name	Phase	City	Open Date (Anticipated)	Rooms	
				Count	Share of Total
<u>Extended Stay</u>					
Staybridge Suites Newark	Planning	Newark	2018	104	16%
Residence Inn Hayward	Final Planning	Hayward	2018	<u>93</u>	<u>14%</u>
Subtotal				197	30%
<u>Other Upscale</u>					
Springhill Suites Oakland Airport	Final Planning	Oakland	2019	137	21%
Springhill Suites Newark Fremont	Final Planning	Newark	2018	120	18%
Springhill Suites Pleasanton	Final Planning	Pleasanton	2018	112	17%
Springhill Suites Oakland Hayward	Final Planning	Hayward	2019	<u>100</u>	<u>15%</u>
Subtotal				469	70%
TOTAL				666	100%

Source: Smith Travel Research; Marriott Hotels; Economic & Planning Systems, Inc.