



August 17, 2020

Sara Buizer
Planning Manager
City of Hayward
777 B Street
Hayward, CA 94541

Re: Mission Crossing Hotel and Residential Project

Dear Sara:

Per our recent discussions, the following provides additional background on – and a proposed solution to – the difficult situation we have encountered with the hotel component of our Mission Crossing community on Mission Boulevard. We look forward to discussing this further with Staff and the Council on September 15. In the meantime, we hope this helps better characterize the challenge we are facing as we continue working with the City to find a workable solution.

Background

In the fall of 2015, MLC Holdings, Inc. (MLC) began work on the future redevelopment of the former Hayward Ford Dealership on Mission Boulevard. The site had sat vacant for years following the closure of the dealership by the site's owner, AutoNation, during the Great Recession. After nearly two years of work with the City and the local community, MLC secured approval from the City Council for a new mixed-use community on the former dealership site. The approved project (now known as Mission Crossing) included 140 for-sale townhomes and a 93-room hotel, slated to be branded as a Marriott Residence Inn. Early in the development process, the City's Economic Development team recommended that MLC partner with Manchester Hotels, a local hotel developer whose ownership group also operates the Hampton Inn on Mission Boulevard. MLC and Manchester worked closely together over a 20-month period on the design and entitlement of the hotel and residential components of the project.

At the time of approval, the City Council requested the addition of a Condition of Approval linking the issuance of occupancy permits for the townhome community to the achievement of development milestones for the hotel project. Specifically, the Council added Condition of Approval No. 166, which reads as follows:

The hotel/retail building pad shall be rough graded prior to the issuance of a certificate of occupancy for the first residential unit; the hotel/retail building shall be in vertical construction phase before a certificate of occupancy is issued for the 100th residential unit and be completed prior to issuance of certificate of occupancy for the last residential unit.

In the summer and fall of 2017, MLC's affiliate (Meritage Homes) began remediation, demolition, and site development activities on the property, including grading for the future hotel site. In December 2017 Manchester acquired the hotel site from Meritage and began the arduous task of processing construction documents and other plans for the hotel through the City's Planning, Public Works, and Building Departments. In September 2018, Meritage broke ground on its first production homes and started construction of its model home complex. In December 2018, Meritage held a Grand Opening at Mission Crossing and began the sale of homes to the public.

Throughout 2018 and 2019, Manchester completed an exhaustive design approval process, ultimately culminating in the approval of construction documents for the hotel in December 2019. Following the approval of construction drawings for the hotel, in early 2020 Manchester began securing bids from construction trades and sourcing construction financing. As Manchester was in the process of landing a construction loan, the onset of the Covid-19 pandemic brought an abrupt halt to their plans. Manchester has now invested over \$4 million in its effort to develop a hotel on the Mission Crossing site but is unable to move forward due to the unprecedented economic challenges and uncertainty facing the hotel industry. Manchester, like much of the hotel industry, does not know when – or even whether – development of new hotels will be feasible given the crushing impact the pandemic has had on the hospitality industry.

At the same time, Meritage has continued building and selling homes at Mission Crossing, and new residents have begun moving in to the community. Since opening for sale in 2018, Meritage has sold 82 homes at Mission Crossing. 60 of those homes are now occupied by new residents. The company has pulled building permits for 126 homes situated in 24 multi-unit buildings, all of which are currently under construction or complete. Under the terms of Condition No. 166, the sudden and unexpected halt of the hotel project means Meritage may be forced to stop work midstream, leaving partially complete buildings vacant for an indefinite and potentially lengthy period. This would be a disaster for the residents, the local community, the City, and the many tradespeople employed by Meritage in the construction of the project. We are seeking the City's assistance in finding a solution that will avoid this unfortunate result.

Impact of Covid-19 on Manchester Hotel Development

The hospitality industry has been devastated by Covid-19, and it remains unclear when or if the industry will recover fully. According to the American Hotel and Lodging Association, as many as 8000 hotels in the United States could close in the coming months due to the crushing blow dealt by Covid-19. In April and May, so-called "RevPar" (a key measure of hotel performance indicating revenue per available room) at United States hotels was down nearly 93% from a year ago. This is an unprecedented level of market devastation that experts say exceeds what the industry experienced during the Great Recession and the post-9/11 recession *combined*. While there was some improvement in June, the recent uptick in Covid-19 cases led many would-be travelers to retrench in July and August, leaving the industry on very precarious footing going forward. As business travel continues to decline and remote work becomes the new norm, demand for hotel nights in a post-Covid world may be far lower than it was in the past.

Manchester owns hotels in Hayward, Oakland, and Fremont, with additional locations in Southern California. With the onset of Covid-19, Manchester's business, as with the rest of the hospitality industry, has been disrupted to a potentially existential degree. RevPar at Manchester's Hampton Inn is down over 70%, and occupancy is down nearly 60%. The same is true at Manchester's other East Bay hotels. Indeed, at its newly-constructed SpringHill Inn & Suites location near the Oakland Airport, revenue and occupancy have fallen so dramatically that Manchester is now unable to get out of its construction loan (which is at

the end of its term) because permanent lenders are unwilling to take the risk of financing such an uncertain asset class. Manchester's fortunes are no better at its facilities in Fremont and elsewhere, and the future remains highly uncertain.

While the impact of Covid-19 on currently operating hotels has been significant and painful, its impact on new development has been nothing short of catastrophic. Banks and institutional lenders simply will not finance the development and construction of new hotel properties given the difficulty of forecasting future operating performance. Hotel development is extremely capital intensive and without the availability of debt financing, it is virtually impossible to develop a hotel of any scale. Just as Manchester has been unable to secure permanent financing for its newly-built SpringHill Suites hotel, it has been impossible to finance the construction of the Residence Inn at Mission Crossing. This desperate situation in turn makes it impossible for Manchester to achieve the construction milestones set forth in Condition No. 166. Manchester, MLC, and Meritage worked diligently and in good faith to bring the hotel project forward as envisioned. Now due to circumstances entirely beyond our control we must contend with a new reality. Unfortunately, that new reality may not include a new hotel on the Mission Crossing site – at least in the foreseeable future.

Impact of Condition No. 166 on Meritage Residential Program

The housing market has been a relative bright spot amid the economic devastation caused by the pandemic. Demand for new housing has persisted as low interest rates have made home ownership more attainable for individuals and young families across the income spectrum. Mission Crossing is no exception. Since opening for sale in 2018, Meritage has sold 82 homes at Mission Crossing and we have now welcomed the first 60 new homeowners to the community. At our current pace, we expect to sell all 140 homes in the community by September 2021. We currently have 126 homes under construction, with three buildings containing 14 homes left to start. If not for the challenges faced by the hotel, we would be in an excellent position to deliver all 140 new homes to customers by December 2021. Unfortunately, by precluding the issuance of more than 100 occupancy permits until after the hotel is under construction, Condition No. 166 could make it impossible to deliver the final 40 homes in the community for years to come. This would be a disaster for the project, the current residents, and the community, for the following reasons:

- With 126 units already under construction, enforcement of the 100-unit occupancy restriction would force Meritage to leave 26 homes vacant and partially completed for an indefinite and potentially lengthy period. This will lead to blight, threaten community safety, invite vandalism, and undermine the value of the homes that Meritage has already sold and closed.
- Ceasing construction and “moth-balling” the project will result in the loss of jobs for the dozens of tradespeople, vendors, materials suppliers, construction managers, and others for whom the project is a source of employment.
- Precluding the completion and occupancy of the final 40 homes in the community will exacerbate an already painful housing crisis by further reducing the availability of attainably priced homes in the community.
- Moth-balling the project will mean the City and other government agencies are deprived of the estimated \$400,000 in annual property tax revenues that would otherwise be generated by the final 40 homes in the community.
- Partially completed buildings become an attractive nuisance attracting crime and undermining the quality of life and property values for the 100 families that will at that point call Mission Crossing home.

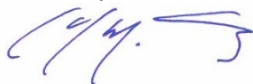
For these reasons and considering the significant uncertainty regarding the future of the hotel industry, Meritage and Manchester are seeking relief from the constraints of Condition No. 166. Specifically, we would propose that Condition No. 166 be revised to allow the following:

- Issuance of occupancy permits for all homes in the community except those located in Building Nos. 5, 9, and 13 (containing a total of 14 homes) as shown on the attached Site Exhibit, irrespective of the status of the hotel development; and
- Issuance of occupancy permits for Building Nos. 5, 9, upon the earlier to occur of (1) commencement of vertical construction on the currently approved hotel project (to include payment of all associated permit fees, estimated at approximately \$1 million) or (2) approval by the City of an alternate development program for the hotel parcel (whether interim or permanent) that offers a suitable community benefit or revenue-generating use.

With respect to the alternate use referenced above, Manchester is open to exploring any number of possible temporary or permanent uses for the 2.27-acre hotel parcel. Interim uses could include a “pop-up” food court that would allow local restaurants and other merchants to expand their outdoor presence while indoor dining remains challenged. Potential permanent uses could include a combination of affordable and market rate housing with dedicated community space.

We look forward to working with Staff and the Council to craft a mutually beneficial plan for addressing the challenge Covid-19 has thrust upon us. We are committed to making the Mission Crossing project a success and will work closely with Manchester and the City to come up with a plan that will bring value to the City and the local community. To that end, please do not hesitate to reach out should you have any questions about our project or our proposed modification to Condition No. 166.

Sincerely,



Charles H. McKeag
PRESIDENT
MLC HOLDINGS, INC.

Cc: Barry Grant, Division President, Meritage Homes
Justin Derby, Director of Acquisition and Entitlement, MLC Holdings
Ken Patel, Principal, Manchester Hotels

Mission Crossing
Residential and Hotel Sites

