Market Study Report, Financial Projections, and Valuation

Proposed Renaissance ClubSport

Menlo Park, California

Prepared by:

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March 2, 2010

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Re: Proposed Renaissance ClubSport - Menlo Park, CA
Menlo Park, California
HVS Reference: #2010040024

Dear Mr. McClure:

Pursuant to your request, we herewith submit our market study, financial projections, and valuation pertaining to the above-captioned property. We inspected the subject site, evaluated market supply and demand, analyzed hotel and health club market conditions, prepared a ten-year forecast of income and expense, and concluded to an opinion of the "prospective" market value as of the date the improvements are expected to be complete and operational, as of January 1, 2014. Our report was prepared in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP), as provided by the Appraisal Foundation.

Very truly yours,
M&R Valuation Services, Inc.

Jaime Law
Assistant Vice President

Suzanne R. Mellen, CRE, MAI, FRICS, ISHC
Managing Director

JL/SRM/leg

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Qualifications

Jaime Law
Suzanne R. Mellen, CRE, MAI, FRICS, ISHC

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1. Summary of Salient Data and Conclusions

Property:	Proposed Renaissance ClubSport
Location:	100 - 190 Independence Drive Menlo Park, California 94025
Interest Evaluated:	Fee simple
Date of "Prospective" Market Value upon Completion of Construction:	January 1, 2014

Land

Area:	±4.35 acres, or ±189,486 square feet
Zoning:	M-2 General Industrial District (Proposed M-3 Mixed-Use Commercial Business Park rezoning)

Proposed Improvements

Expected Date of Opening:	January 1, 2014
Property Type:	Mixed-use (hotel and health club)
Building Area:	±246,426 square feet
Guestrooms:	230 guestrooms
Number of Stories:	Eleven
Food and Beverage Facilities:	
Full-service bistro restaurant:	116 seats
Sports bar, express deli, and lounge:	80 seats
Meeting Space:	±6,849 square feet of meeting space (30 sq. ft./ rm.) with ±2,327 square feet of prefunction space
Health Club:	±66,191 square feet
Facilities in Health Club:	Fitness room, gymnasium, six racquetball/squash courts, two aerobics rooms, yoga room, pilates room, group exercise area, spinning area, full-service spa, child-care center, three outdoor swimming pools, outdoor whirlpool, locker rooms for men, women, and families, club lounge, gift shop

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Parking:	Access and use of the 1,230 parking spaces in a five-story parking garage structure located adjacent to the western portion of the subject site
Occupancy and Average Rate Conclusion:	
Year One:	64% Occupancy and $206.11 ADR
Stabilized Year:	74% Occupancy and $250.19 ADR
NOI Conclusion:	
Year One:	$6,211,000, or 23.3% of Total Revenue
Stabilized Year:	$11,618,000, or 29.3% of Total Revenue
Prospective Market Value upon Completion of Construction, as of January 1, 2014:	$107,400,000 (including membership pre-sale)

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2. Market Study, Financial Projections, and Valuation

NATURE OF THE MARKET STUDY, FINANCIAL PROJECTIONS, AND VALUATION

The subject of the market study, financial projections, and valuation is the fee simple interest in a ±189,486-square-foot (±4.35-acre) site to be improved with a mixed-use development containing a 230-room, upscale lodging facility and a ±68,750-square-foot health club that will be known as the Proposed Renaissance ClubSport. The subject site is located at the southwestern quadrant of the intersection formed by Independence Drive and Chrysler Drive in Menlo Park, California 94025. The site's southern boundary line borders US Highway 101.

The proposed subject is part of the Menlo Gateway development, a phased development by Bohannon Development Company, which, according to a Master Plan Development by Bohannon Development Company dated July 7, 2009, is proposed to also includes one office building totaling 197,000 square feet of office space, ±3,000 square feet of retail space, and a five-story garage parking structure totaling 1,230 parking spaces located along the south side of Independence Drive; and two additional office buildings totaling 487,250 square feet of office space, ±7,420 square feet of retail space, and one four- and one five-story garage parking structures totaling 1,504 parking spaces located along the north side of Constitution Drive. The Independence Drive improvements (office building, garage, and the hotel and health club) are slated to be completed by the end of 2013 and to be operational by January 2014. The Constitution Drive improvements (offices and garages) are slated to be completed in two phases: one office building and parking garage structure in 2014 and the remainder in 2015.

In addition to the guestrooms, the hotel is expected to contain ±6,849 square feet of meeting space with ±2,327 square feet of prefunction space, a full-service restaurant, a sports bar, and a lounge with an express deli. The health club portion of the subject property is anticipated to contain a fitness area, a gymnasium, six racquetball/squash courts, two aerobics rooms, a yoga room, a pilates room, a group exercise area, a spinning area, a full-service spa, a child-care center, three outdoor swimming pools, an outdoor whirlpool, a spa retail area, locker rooms for men, women, and families, a club lounge, and a gift shop. The total square footage of the Renaissance ClubSport is ±246,426 square feet.

For purposes of this analysis, it has been assumed that the proposed subject property will have access and use of the 1,230 parking spaces in a five-story parking garage structure located adjacent to the western portion of the subject site, which will be shared with the office building.

Property Right Evaluated

The property right evaluated is the fee simple interest of the land and improvements, including furniture, fixtures, and equipment. Fee simple interest is defined as "absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."[1]

Objective of the Market Study, Financial Projections, and Valuation

The preliminary objective of this assignment is to evaluate market supply and demand and prepare a ten-year forecast of income and expense and valuation of the proposed Renaissance ClubSport (Phase One). A written market study, financial projections, and valuation report will then be prepared (Phase Two). Our projections and valuation will be performed in accordance with the standards stipulated by the Uniform Standards of Professional Appraisal Practice (USPAP). This consulting assignment is not an appraisal, but concludes to valuation for purposes of analyzing the potential investment.

Method of Study

The methodology used to develop this market study, financial projections, and valuation is based on the market research and valuation techniques set forth in the textbooks authored by HVS for the American Institute of Real Estate Appraisers and the Appraisal Institute, entitled *The Valuation of Hotels and Motels,*[2] *Hotels, Motels and Restaurants: Valuations and Market Studies,*[3] *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations,*[4]

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[1] Appraisal Institute. *The Dictionary of Real Estate Appraisal.* 4th ed. Chicago: Author, 2002, p. 113.
[2] Rushmore, Stephen. *The Valuation of Hotels and Motels.* Chicago: American Institute of Real Estate Appraisers, 1978.
[3] Rushmore, Stephen. *Hotels, Motels and Restaurants: Valuations and Market Studies*. Chicago: American Institute of Real Estate Appraisers, 1983.
[4] Rushmore, Stephen. *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*. Chicago: American Institute of Real Estate Appraisers, 1990.

Hotels and Motels: A Guide to Market Analysis, Investment Analysis, Valuations[5], and *Hotels and Motels—Valuations and Market Studies.*[6]

1. The subject site was evaluated from the viewpoint of its physical utility for the operation of a hotel and health club, as well as access, visibility, and other relevant locational factors.
2. The surrounding economic environment, on both an area and neighborhood level, was reviewed to identify specific hostelry- and health club-related economic and demographic trends that may have an impact on future demand for hotels and health clubs.
3. Key variables affecting hotel rooms revenue and health club membership revenue were projected following an analysis of the respective competitive markets, a review of potential additions to supply, and a consideration of segmented demand characteristics, where relevant.
4. A detailed projection of income and expense based on information provided to us, including the 2007 PKF study, the 2007 Brion & Associates study, data provided by Leisure Sports, and the 2007 and 2010 pro formas prepared by Marriott, showed the anticipated economic benefits of the subject property and savings of the combined hotel and health club operations.
5. The current market for hotel and club transfers, mortgage rates, and equity investment requirements was researched. Using these market indicators as a base and adjusting for potential investment benefits and risks displayed by the proposed subject property, we formulated appropriate capitalization and discount rates. A mortgage-equity, ten-year discounted cash flow analysis was utilized to convert our ten-year forecast into an opinion of value.

Use of the Market Study

This market study is being prepared for use by Jorgenson, Siegel, McClure & Flegel LLP and the City of Menlo Park in their evaluation of the proposed project. This report may not be distributed to or relied upon by other persons or entities. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

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[5] Rushmore, Stephen. *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations.* Chicago: Appraisal Institute, 1992.
[6] Rushmore, Stephen and Baum, Erich. *Hotels and Motels—Valuations and Market Studies.* Chicago: Appraisal Institute, 2001.

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Pertinent Dates

This assignment was performed during the period from late December 2009 through the last week in February 2010. Any information received or events that occur past this time period have not been considered in our estimate of the prospective performance of the subject property as of its date of completion in 2014.

Scope of the Market Study

All information was collected and analyzed by the staff of HVS Consulting and Valuation. Information such as comparable operating statements, pro formas, site plans, floor plans, architectural renderings, and the like were supplied by Leisure Sports Inc., Brion & Associates, and Marriott International. The subject site was inspected and, unless noted otherwise, we have also inspected the competitive lodging facilities and health clubs. Members of the firm analyzed the immediate market for hotels and athletic club facilities. Economic data and information on improved sales, area-wide and competitive occupancies, average rates, membership levels, membership fees, operating expenses, and capitalization and equity yield rates were gathered from available sources. A mortgage-equity, ten-year discounted cash flow analysis was utilized to convert our ten-year forecast into an estimate of value.

Ownership and Assumptions

The subject site is owned by Bohannon Development Company. The proposed subject improvements are expected to be completed and operational by January 1, 2014. The proposed developments will be subject to a management agreement with Marriott International and Leisure Sports, Inc. Based on information provided by Leisure Sports, the proposed subject property will be subject to a base management fee of 3.0% of total revenues. A management agreement of this nature typically calls for an incentive fee which is deal specific. We anticipate that the owner/developer will be required to pay an incentive fee at some point in the life cycle of the property; this expense has not been taken into consideration in our valuation of the project.

Pertinent Dates

The proposed subject improvements are expected to be completed and operational by January 1, 2014. All projections are expressed in inflated dollars, and the value estimates represent 2014 dollars. Research and primary fieldwork were performed between February 8, 2010 and February 15, 2010. We have only considered information available through these dates. The subject site was inspected by Jaime Law and Suzanne R. Mellen, CRE, MAI, FRICS, ISHC.

Description of the Site

The subject site is located in the city of Menlo Park, county of San Mateo, and state of California. At the time of inspection, the subject site contained improvements that will be demolished when construction of the proposed improvements begins. The subject improvements are expected to be fully complete by January 1, 2014. A site plan of the total proposed development is set forth below. The Renaissance ClubSport will occupy the southern portion of the westernmost parcel, with direct frontage on the U.S. 101 Bayshore Freeway.

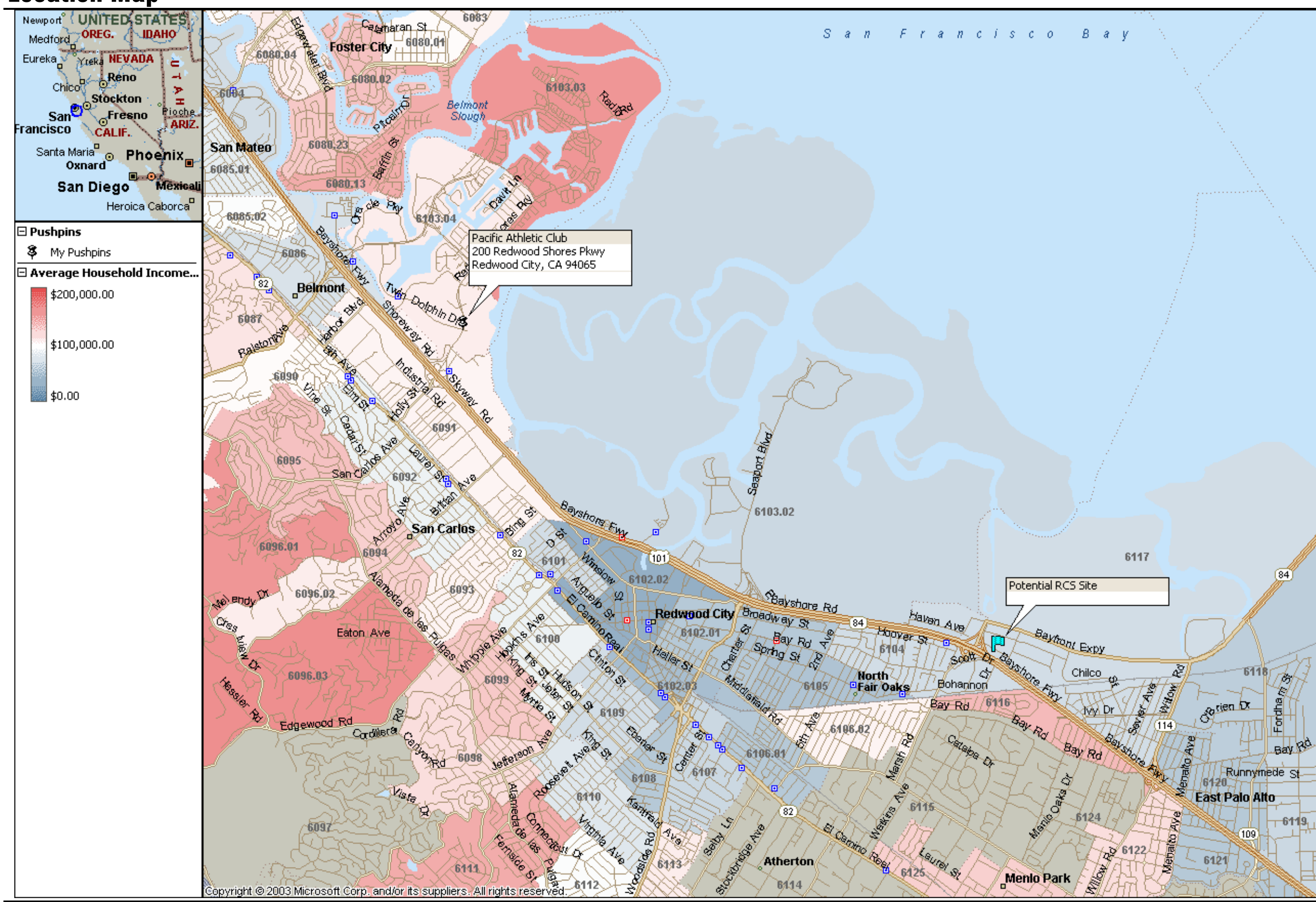
Development Site Plan

Because the site is bifurcated by lesser quality low density warehouses and commercial demand generators are located further southwest (at least 2 miles from the subject site), the immediate neighborhood is currently not supportive for hotel improvement, but with construction of the proposed office buildings, a hotel and health club facility will can be expected to be a very successful product. The club will be able to draw from an affluent residential base, a significant pool of commuters, as well as an adjacent office population. The hotel will be the only full service Marriott product in the Palo Alto/Menlo Park market area, and will be offering an enhanced product with its club component. Both the hotel and club, while situated in a traditionally strong market, will be highly dependent upon demand generated by the proposed project's roundly 750,000 square feet of office space – without this inventory the property would be relatively isolated.

Local Access and Visibility

The site offers excellent access and visibility from U.S. Highway 101 (U.S. 101)—a heavy commuter route. During non-commute hours, access to the site via U.S. 101 is relatively easy from both the north- and southbound directions. During the morning commute the northbound lanes of U.S. 101 are fairly congested, and during the evening commute the southbound lanes of U.S. 101 experience heavy traffic. The site has prominent visibility from the northbound U.S. 101 off-ramp towards Marsh Road. Motorists traveling northbound make a right turn on Marsh Road after exiting U.S. 101 and then travel 150 yards and make another right turn on Independence Drive; the site is located on the right side before Chrysler Drive. The site has full frontage along U.S. 101, providing excellent visibility to both north- and south-bound motorists. It is anticipated that many members trying to access the site during the rush-hour period will be commuters traveling to or from work on the highway. The site also offers access from Highway 84, directly north of the Marsh Road exit (Highway 84 turns into Marsh Road), and commuters that live in the East Bay.

Location Map



Description of the Real Estate

The Proposed Renaissance ClubSport will be a full-service lodging facility and athletic club containing 230 rentable units, ±6,849 square feet of meeting space with ±2,327 square feet of prefunction space, a full-service restaurant, a sports bar, and a lounge with an express deli. The ±68,705-square-foot health club will contain a fitness area, a gymnasium, six racquetball/squash courts, two aerobics rooms, a yoga room, a pilates room, a group exercise area, a spinning area, a full-service spa, a child-care center, three outdoor swimming pools, an outdoor whirlpool, a spa retail area, locker rooms for men, women, and families, a club lounge, a gift shop, and appropriate back-of-the-house facilities.

Additional facilities include the five-story parking garage located on the west side of the subject site, to which we have assumed that the proposed site will have shared access and use with the office building.

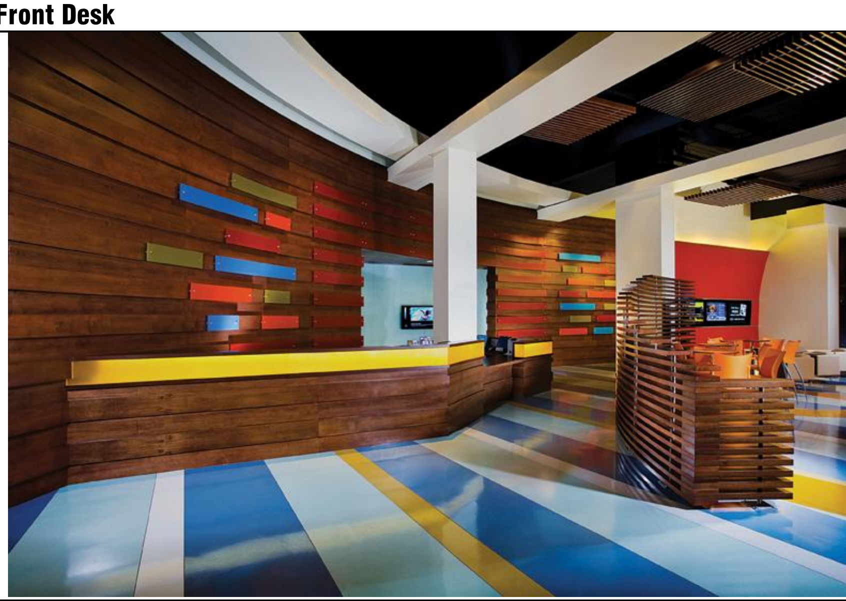
Based on site plans, architectural drawings and renderings, and information provided by the developers of the proposed hotel and athletic club, the following table summarizes the facilities that will be available at the hotel and athletic club:

Table 2-1 Facilities Summary

Guestrooms	Number of Rooms		Configuration	
King	165		Handicapped Accessible	12
Double/Double	55			
Suite	10			
Total Guestrooms	**230**			
Food and Beverage	**Number of Seats**	**Location/Floor**	**Meals Served**	
Bistro Restaurant	116	Atrium	Breakfast/Lunch/Dinner	
Bar, Lounge and Express Deli	80	Atrium	Breakfast/Lunch/Light Dinner	
Room Service		Atrium	Breakfast/Lunch/Dinner	
Meeting and Banquet Space	**Size (Square Feet)**	**Location/Floor**		
Total Meeting Space	**6,849**	Hotel Wing, Main Floor		
Prefunction	2,327	Hotel Wing, Main Floor		
Total Function Space	**9,176**			
Health Club		**Location/Floor**		
Fitness Area		Health Club Wing, Second Floor		
Gymnasium		Health Club Wing, Main Floor		
Six Raquetball/Squash Courts		Health Club Wing, Main Floor		
Two Aerobics Rooms		Health Club Wing, Main Floor		
Yoga and Pilates Rooms		Health Club Wing, Second Floor		
Group Exercise Area		Health Club Wing, Second Floor		
Spinning Area		Health Club Wing, Second Floor		
Full-Service Spa		Health Club Wing, Main Floor		
Kids' Club (child-care center)		Health Club Wing, Main Floor		
Three Outdoor Swimming Pools		Southeastern End of Subject Site		
Outdoor Whirlpool		Southeastern End of Subject Site		
Spa and Retail		Health Club Wing, Main Floor		
Gift Shop		Health Club Wing, Main Floor		
Men's, Women's, and Family Locker Rooms		Health Club Wing, Main Floor		
Services and Amenities				
Valet Parking		Ice/Vending Machines		
High-Speed Internet Access		Access to Six-Story Parking Garage		

It is assumed, for the purposes of this analysis, that the Renaissance ClubSport will be constructed as a first-class facility, on par with the Renaissance ClubSports in Walnut Creek and Aliso Viejo. The hotel will offer upper upscale, four-diamond accommodations and the club is expected to be equal or superior to the quality of the Pacific Athletic Club in Redwood City. The following renderings of Renaissance ClubSport facilities were provided by Leisure Sports, Inc.

Hotel Front Desk



Guestroom

Heated Pool

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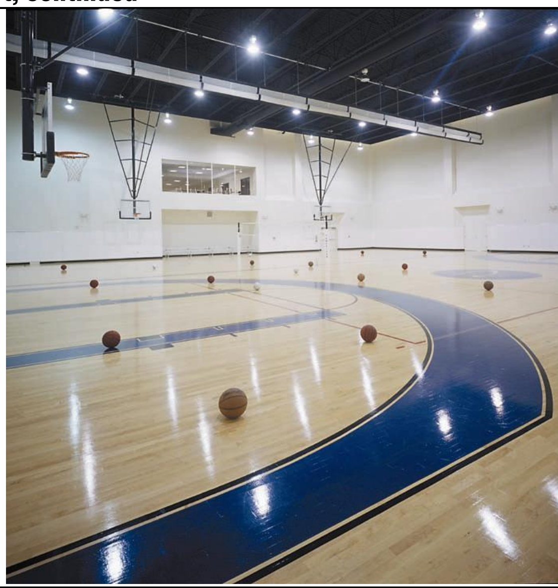
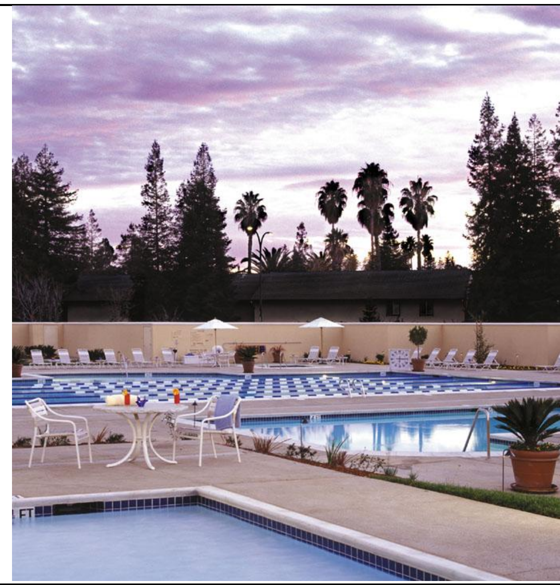
Outdoor Lounge

ClubSport

ClubSport, continued





Wet Bar and Bistro

Meeting and Banquet Facilities

MARKET AREA ANALYSIS

The subject's market area may be defined as the eastern portions of southern San Mateo County and northern Santa Clara County. San Mateo County, which covers a total land area of more than 448 square miles, is a very prosperous area, well positioned between San Francisco County to the north and Santa Clara County to the south. The economy of San Mateo County is substantially reliant on San Francisco International Airport, which accounts for a significant percentage of its lodging demand and overall employment. In addition, the bio- and high-technology, and shipping industries all contribute heavily to the San Mateo County economy. Santa Clara County, which contains 1,291 acres, is located south of San Mateo County and is the primary site of Silicon Valley. The term "Silicon Valley" was itself coined in 1971. The trend accelerated in the 1980s and 1990s, and agriculture has been nearly eliminated from the northern part of the county. Today, Santa Clara County is the headquarters for such companies as Apple Computer, Sun Microsystems, Hewlett-Packard, Google, Yahoo, eBay, Intel, and many others. The county is the main area of Silicon Valley, which includes several other counties both north and south of Santa Clara. Firms in both counties are pioneers in biotechnology pursuits, research and development, telecommunications, and software. By investing heavily in research and development, the county's technology firms and e-commerce companies have evolved from hardware manufacturers to leaders in the pharmaceutical and computer software markets. The area's economic health is also tied to its location between two important cities and regions: San Francisco to the north and San Jose (Silicon Valley) to the south. Many innovative tech firms reside in the Stanford Research Park on Page Mill Road in Palo Alto, while Sand Hill Road, in the adjacent city of Menlo Park, is a notable haunt for venture capitalists. The city's economy generally follows the economic trends of the rest of Silicon Valley.

Our market interviews and research revealed that the success of the proposed Renaissance ClubSport will be dependent on the Bay Area's economic health and stability. Below are important economic factors considered in the long-term health of the subject market.

- A significant portion of hotel demand in Palo Alto relies on Stanford University (described earlier) and, particularly, the medical center. The Stanford Medical Center includes the Stanford School of Medicine, Stanford Hospital and Clinics, and the Lucile Packard Children's Hospital. The Medical Center is known for breakthrough technologies and treatments, including the first synthesis of biologically active DNA in a test tube, the first construction of a recombinant DNA molecule containing DNA from two different species, discovery of immune-response genes, and development of the microarray technology that allows researchers to see at once which genes of the thousands present in a cell are switched "on."
- The Bay Area's near-term economic outlook is being negatively impacted by the national economic recession. With its diverse employment base, the Bay Area is poised for a quick recovery after the current down cycle and a stable economic outlook in the long term. Biotech and high-tech firms, as well as emerging clean-tech companies, are notable for innovation that is unparalleled in the world. Venture capital invested in state-of-the-art technology and infrastructure for such companies is an indication of investors' long-term confidence in the San Francisco Bay Area economic outlook. The Bay Area office market is facing additional increases in unoccupied space and a growing office sublease market, albeit not as much as during the dot-com bust, resulting from the overall economic downturn. This has led to a willingness on the part of owners to drop asking rates significantly. New technology, especially in green technologies and biotechnology, is expected to lead the recovery and the growth of employment coming out of the current recession.

The long-term outlook for the area is generally favorable due to its diverse employment base and highly educated labor force. We assume, for purposes of this analysis, that the national and local economies will be fully recovered from the current recession by 2014, the time the proposed subject property is open and operational

HOTEL SUPPLY AND DEMAND ANALYSIS

HVS Consulting and Valuation has requested and analyzed supply and demand information from Smith Travel Research (STR) for the anticipated competitors of the proposed subject hotel. The following table indicates the hotels included in the STR data dating back to 1999.

Table 2-2 Historical Supply and Demand Trends (STR)

Year	Occupied Room Nights	Change	Available Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
1999	326,744	—	415,374	—	78.7 %	$175.76	—	$138.26	—
2000	385,398	18.0 %	496,220	19.5 %	77.7	203.80	16.0 %	158.29	14.5 %
2001	324,645	(15.8)	518,300	4.4	62.6	200.16	(1.8)	125.38	(20.8)
2002	301,320	(7.2)	529,890	2.2	56.9	172.70	(13.7)	98.20	(21.7)
2003	318,968	5.9	583,730	10.2	54.6	154.28	(10.7)	84.31	(14.2)
2004	378,471	18.7	587,650	0.7	64.4	151.05	(2.1)	$97.28	15.4
2005	411,142	8.6	587,650	0.0	70.0	160.45	6.2	112.26	15.4
2006	468,411	13.9	656,341	11.7	71.4	181.35	13.0	129.42	15.3
2007	496,681	6.0	660,650	0.7	75.2	196.52	8.4	147.74	14.2
2008	482,840	(2.8)	660,650	0.0	73.1	203.34	3.5	148.61	0.6
2009	471,181	(2.4)	694,475	5.1	67.8	173.43	(14.7)	117.67	(20.8)
Average Annual Compounded Change		4.8 %		3.7 %			(1.8) %		(0.8) %

Hotels Included in Sample	Number of Rooms	Year Affiliated	Year Opened
Courtyard Palo Alto Los Altos	190	Nov 2002	Nov 2002
Rosewood Sand Hill	123	Apr 2009	Apr 2009
Stanford Park Hotel	163	Jan 1995	Jun 1984
Residence Inn Palo Alto Mountain View	112	Oct 1985	Oct 1985
Sofitel San Francisco Bay	421	Sep 1987	Sep 1987
Westin Palo Alto	184	May 2000	May 2000
Sheraton Hotel Palo Alto	346	Jul 1998	Sep 1973
Four Seasons Silicon Valley @ E Palo Alto	200	Jan 2006	Jan 2006
Crowne Plaza Palo Alto	194	Oct 1998	Jun 1962
Total	**1,933**		

Source: Smith Travel Research

The subject hotel's competitive set has been defined as the full-service hotels in Palo Alto, Menlo Park, and Redwood City, as well as the focused-service and extended-stay properties in Los Altos and Mountain View. A total of nine hotels are in the competitive set, of which five are located in Palo Alto and the remaining are in Menlo Park, Mountain View, Redwood City, and Los Altos.

The performance of the hotels in the subject's competitive set peaked in 1999 and 2000 with the apex of the dot-com boom and the robust strength of the national and regional economies at that time. The RevPAR gain of 14.5% in 2000 was negated in subsequent years as the market was significantly affected by the economic contraction and the events of September 11. Occupancy reached its nadir in 2003, declining to 54.6% from a peak of 78.7% in 1999. As occupancy began rebounding in 2004, operators were able to increase rates for the first time in four years in 2005. From 2004 to 2007, RevPAR increased at double-digit rates. The economic recession, which began in mid-2008, eroded hotel performance. Hotel performance continued to grow in the first half of 2008, but declines in occupancy and rate in the second half of the year negated any gains made earlier, resulting in a marginal RevPAR growth rate of 0.6% in 2008. In 2009, the contraction in transient demand driven by the struggling economy and the negative perception of group travel and the use of luxury hotels and resorts depressed hotel usage nationally, resulting in a substantial (20.8)% decline in the market's RevPAR.

Competition

The following tables summarize the important operating characteristics of the proposed subject property's competitors. This information was compiled from personal interviews, inspections, lodging directories, and our in-house library of operating data. The tables also set forth each property's penetration factors; penetration is the ratio between a specific hotel's operating results and the corresponding data for the market. If the penetration factor is greater than 100%, the property is performing better than the market as a whole; conversely, if the penetration is less than 100%, the hotel is performing at a level below the market-wide average. Note that the STR composite represents an estimation of the combined performance for the Courtyard Palo Alto and the Stanford Park Hotel, properties included in our STR Trend report.

Table 2-3 Competitors

Property	Number of Rooms	Est. Segmentation: Commercial	Est. Segmentation: Meeting and Group	Est. Segmentation: Leisure	Estimated 2007: Weighted Annual Room Count	Estimated 2007: Occ.	Estimated 2007: Average Rate	Estimated 2007: RevPAR	Estimated 2008: Weighted Annual Room Count	Estimated 2008: Occ.	Estimated 2008: Average Rate	Estimated 2008: RevPAR	Estimated 2009: Weighted Annual Room Count	Estimated 2009: Occ.	Estimated 2009: Average Rate	Estimated 2009: RevPAR	Estimated 2009: Occupancy Penetration	Estimated 2009: Yield Penetration
Sheraton Hotel	347	45 %	30 %	25 %	347	85.0 %	$177.00	$150.45	347	85.0 %	$180.00	$153.00	347	78.0 %	$151.00	$117.78	115.2 %	100.2 %
Westin Palo Alto	184	75	10	15	184	85	236.00	200.60	184	81	248.00	200.88	184	77	205.00	157.85	113.7	134.3
Crowne Plaza Palo Alto	194	50	35	15	194	74	156.00	115.44	194	70	162.00	113.40	194	61	145.00	88.45	90.1	75.3
Residence Inn Los Altos	112	70	20	10	112	86	149.00	128.14	112	86	156.00	134.16	112	75	153.00	114.75	110.7	97.7
Four Seasons Palo Alto	200	65	25	10	200	66	280.00	184.80	200	69	303.00	209.07	200	56	250.00	140.00	82.7	119.1
Rosewood Sand Hill	123	65	20	15	0	0	0.00	0.00	0	0	0.00	0.00	93	65	270.00	175.50	96.0	149.4
Sofitel San Francisco Bay	421	60	30	10	421	65	176.00	114.40	421	64	179.00	114.56	421	64	136.00	87.04	94.5	74.1
STR Composite	352	65	25	10	352	75	209.00	156.75	352	68	217.00	147.56	352	66	184.00	121.44	97.4	103.3
Totals/Averages	**1,933**	**60 %**	**26 %**	**14 %**	**1,810**	**75.2 %**	**$195.58**	**$147.05**	**1,810**	**73.1 %**	**$203.39**	**$148.65**	**1,903**	**67.7 %**	**$173.50**	**$117.51**	**100.0 %**	**100.0 %**

Table 2-4 Facilities Chart

Property	Number of Rooms	Year Opened	Last Renovation	Distance From Subject (miles)	Meeting Space (SF)	Meeting Space per Room	Ownership Entity	Management Company
Proposed Renaissance ClubSport	**230**	**2014**	**N/A**	**0.0**	**6,849**	**29.8**	**Bohannon Development Company**	**Marriott International**
Sheraton Hotel	347	1973	2009	3.0	13,000	37.5	Clement Chen	Pacific Hotels Management
Westin Palo Alto	184	2000	N/A	3.0	8,457	46.0	Clement Chen	Pacific Hotels Management
Crowne Plaza Palo Alto	194	1962	2010	5.8	26,800	138.1	BPR Properties	BPR Properties
Residence Inn Los Altos	112	2001	2008	6.3	1,195	10.7	Sandhill	Sandhill
Four Seasons Palo Alto	200	2009	N/A	2.5	5,596	28.0	Strategic Hotels	Four Seasons Hotels and Resorts
Rosewood Sand Hill	123	2009	N/A	4.7	12,000	97.6	Stanford University	Rosewood Resorts
Sofitel San Francisco Bay	421	1992	2006	5.3	16,861	40.0	GEM Realty, Whitehall, and Accor	Accor

Map of Competitors

Supply Changes

The subject property is anticipated to be open and operational by January 1, 2014 for the purpose of this analysis. The luxury **Rosewood Sand Hill** opened in April 2009 in a master-planned business park on Sand Hill Road near Highway 280 in Palo Alto. Developed by Stanford University and operated by Rosewood, the hotel features 123 oversized rooms, suites, and villas on a 16-acre site. The resort-like facilities include a full-service spa with a café, a three-meal restaurant, and a terrace lounge. Facilities include almost 6,000 square feet of indoor meeting space and a large pool area with cabanas. Clement Chen, the owner and operator of the Sheraton Hotel and Westin Hotel, is seeking entitlements for a small upscale hotel on a site adjacent to the Westin Hotel. The 44 rooms are anticipated to be operated as a club-level addition to the Westin Hotel. Recently, Simon Properties and Stanford University were seeking entitlements for the expansion of the Stanford Shopping Center. These entitlements included a hotel. The submission for entitlements was recently withdrawn by the developers. Given the current challenging operating and financing environment we anticipate that it will be three to five years before any of these projects came to fruition. The subject market area has high barriers to entry thus reducing the likelihood of any oversupply once construction financing resumes. Given that it is highly unlikely that all of these projects will come to fruition within the foreseeable future, we have only factored in the opening of the subject property into our analysis. In good economic times, the subject hotel market is one of the stronger sub-markets in the country, and if the two additional projects are ultimately developed we anticipate that they will be able to be absorbed without any significant long-term impact on the performance of existing area hotels.

While we have taken reasonable steps to investigate proposed hotel projects and their status, due to 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 value of the subject property may be positively or negatively affected.

Based on our fieldwork, no other lodging development is planned in the near future. However, future improvement in market conditions will raise the risk of increased competition. The forthcoming forecast of stabilized occupancy and average rate are intended to reflect such risk.

Demand Analysis Using Market Segmentation

For the purpose of demand analysis, the overall market is divided into individual segments based on the nature of travel. Based on our research, area analysis, and knowledge of the local lodging market, we estimate the 2009 distribution of accommodated room night demand, as well as the subject's projected stabilized market mix, as follows.

Table 2-5 Accommodated Room Night Demand

	Marketwide		Propsed Renaissance ClubSport Stabilized Year	
Market Segment	**Accommodated Demand**	**Percentage of Total**	**Accommodated Demand**	**Percentage of Total**
Commercial	281,288	60 %	38,250	61 %
Meeting and Group	121,379	26	12,104	19
Leisure	67,700	14	12,207	20
Total	**470,367**	**100 %**	**62,561**	**100 %**

The market-wide segmentation of hotel demand in the area is heavily weighted towards the commercial segment, highly dependent on high-tech firms and Stanford University. Using the distribution of accommodated hotel demand as a starting point, we will analyze the characteristics of each market segment to determine future trends in room night demand.

Commercial Segment

Commercial travelers include individual business travelers who are visiting various firms in the subject property's market. This demand is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday. 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 downtown market is generated by a variety of corporations, including Hewlett-Packard, Tibco Software, Sun Microsystems/Oracle, SAP, Microsoft, Google, and IBM, as well as the accounting and consulting firms of PricewaterhouseCoopers, Ernst & Young, and McKinsey Co. Stanford Medical Center is an important source of room nights for business travelers associated with the institution.

Meeting and Group Segment

The meeting and group market includes corporate meetings, training sessions, seminars, conventions, trade association shows, and similar gatherings with negotiated rates for at multiple rooms. Although there are numerous classifications within the meeting and group segment, the primary categories considered in this analysis are corporate groups, associations, and SMERF (social, military, educational, religious, and fraternal) groups.

The Sheraton, Crowne Plaza Cabana, Rosewood, and Sofitel offer the most meeting space of the competitive set. Tiered at different price points, these hotels accommodate primarily corporate groups during the week; and SMERF demand, family reunions, and other more price-sensitive groups during the weekends and summer months. Sports teams associated with tournaments at the Stanford campus are also an important demand generator.

Leisure Segment

Leisure travelers include individuals and families who are spending time in the area or passing through en route to other destinations. Their travel purposes may include sightseeing, recreation, visiting friends and relatives, or numerous other non-business activities. Leisure demand is strongest Friday and Saturday nights and all week during holiday periods and the summer months. Leisure demand includes parents and students affiliated with the university. Leisure demand includes room nights generated by

HVS

Internet sites, including third-party and hotel management sites. Although these room nights are quantified as leisure demand, the purpose of the visit may commercial or group oriented in nature. As the purpose of the trips cannot be distinguished at this time, the room nights have been considered in the leisure segment. During periods of economic downturn, such as in the current environment, many properties allocate greater amounts of inventory to Internet sites at discounted rates. Demand in this segment generally increases at a faster rate during these periods and moderates when other higher-rated sources of demand are more robust. In the local market, the Stanford Hospital is an important demand generator and is also categorized as being in the leisure segment for patients and their families.

Forecast of Market-Wide Occupancy

Based upon a review of the market dynamics in the subject property's competitive environment, we have forecast growth rates for each market segment. We have also analyzed the potential for demand to be induced in the future. In the following table, total demand is then divided by the forecast of market supply, rendering an overall estimate of area-wide occupancy. Thus, the forecast of market-wide occupancy is calculated as follows:

Table 2-6 Forecast of Market-Wide Occupancy

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Commercial									
Base Demand	281,288	286,914	295,521	307,342	322,709	335,618	345,686	347,415	349,152
Induced Demand		0	0	0	0	7,287	7,875	8,345	8,580
Total Demand		286,914	295,521	307,342	322,709	342,905	353,561	355,759	357,731
Growth Rate		2.0 %	3.0 %	4.0 %	5.0 %	6.3 %	3.1 %	1.0 %	1.0 %
Meeting and Group									
Base Demand	121,379	123,806	127,520	132,621	137,926	143,443	147,746	148,485	149,228
Induced Demand		0	0	0	0	2,602	2,812	2,980	3,064
Total Demand		123,806	127,520	132,621	137,926	146,046	150,559	151,465	152,292
Growth Rate		2.0 %	3.0 %	4.0 %	4.0 %	5.9 %	3.1 %	0.6 %	0.5 %
Leisure									
Base Demand	67,700	68,377	69,745	71,837	73,274	74,739	76,981	77,366	77,753
Induced Demand		0	0	0	0	1,041	1,125	1,192	1,226
Total Demand		68,377	69,745	71,837	73,274	75,780	78,106	78,558	78,979
Growth Rate		1.0 %	2.0 %	3.0 %	2.0 %	3.4 %	3.1 %	0.6 %	0.5 %
Totals									
Base Demand	470,367	479,097	492,786	511,800	533,909	553,800	570,414	573,266	576,132
Induced Demand		0	0	0	0	10,930	11,812	12,517	12,870
Total Demand		479,097	492,786	511,800	533,909	564,730	582,226	585,783	589,002
Total Accommodated Demand		479,097	492,786	511,800	533,909	564,730	582,226	585,783	589,002
Overall Demand Growth		1.9 %	2.9 %	3.9 %	4.3 %	5.8 %	3.1 %	0.6 %	0.5 %
Market Mix									
Commercial	59.8 %	59.9 %	60.0 %	60.1 %	60.4 %	60.7 %	60.7 %	60.7 %	60.7 %
Meeting and Group	25.8	25.8	25.9	25.9	25.8	25.9	25.9	25.9	25.9
Leisure	14.4	14.3	14.2	14.0	13.7	13.4	13.4	13.4	13.4
Existing Hotel Supply	1,903	1,933	1,933	1,933	1,933	1,933	1,933	1,933	1,933
Proposed Hotels									
Proposed Renaissance ClubSport [1]						230	230	230	230
Available Rooms per Night	694,475	705,545	705,545	705,545	705,545	789,495	789,495	789,495	789,495
Nights per Year	365	365	365	365	365	365	365	365	365
Total Supply	1,903	1,933	1,933	1,933	1,933	2,163	2,163	2,163	2,163
Rooms Supply Growth	—	1.6 %	0.0 %	0.0 %	0.0 %	11.9 %	0.0 %	0.0 %	0.0 %
Marketwide Occupancy	**67.7 %**	**67.9 %**	**69.8 %**	**72.5 %**	**75.7 %**	**71.5 %**	**73.7 %**	**74.2 %**	**74.6 %**

[1] Opening in January 2014 of the 100% competitive, 230-room Proposed Renaissance ClubSport

As illustrated in the preceding table, as the subject market recovers, market-wide occupancy is projected to grow moderately in the near term and, as a result of the opening of the subject property, is projected to moderate in 2014 before stabilizing in the mid-70% range throughout the projected term.

PROJECTION OF HOTEL OCCUPANCY AND AVERAGE RATE

The forecast of hotel occupancy and average rate reflect an operating strategy that we believe would be implemented by a typical, professional hotel management team to achieve an optimal mix of occupancy and average rate.

Historical Occupancy Penetration Rates by Market Segment

In the following table, the penetration rates attained by the proposed subject's competitors are set forth for each segment for the base year, 2009.

Table 2-7 Historical Penetration Rates

Property	Commercial	Meeting and Group	Leisure	Overall
Sheraton Hotel	87 %	134 %	200 %	115 %
Westin Palo Alto	143	44	118	114
Crowne Plaza Palo Alto	75	122	94	90
Residence Inn Los Altos	130	86	77	111
Four Seasons Palo Alto	90	80	57	83
Rosewood Sand Hill	104	74	100	96
Sofitel San Francisco Bay	95	110	66	94
STR Composite	106	94	68	97

In the base year, the Starwood Properties achieved the highest overall occupancy penetration of the competitive set. The Sheraton, Crowne Plaza, and Sofitel hotels enjoy similar group penetration. Leisure demand is currently driven by room nights booked on Internet sites, thus skewing the amount of leisure-oriented demand in the market. As the economy retrenched, revenue management strategies at several hotels have included more active use of these sites to maintain occupancy levels.

Forecast of Subject Property's Occupancy Penetration

The proposed new office development in the immediate market area is anticipated to provide additional corporate demand for the proposed subject in the long term. In addition, the proposed subject property is assumed to provide ±6,849 square feet of meeting space with ±2,327 square feet of prefunction space that can be used for various corporate and high-end social functions. In addition, the ClubSport facility and the guestroom product, combined with the base of demand generated from the membership of the athletic club, are projected to make the proposed subject property popular among leisure travelers to the area, thereby potentially generating the potential for higher leisure room rates during the weekends. The subject property's penetration has been forecast based on the hotel's location and attributes to account for various adjustments to market share within the defined competitive set. The proposed subject property will be close to numerous office developments (part of the Menlo Gateway Master Plan Development) that will provide high-end commercial transient demand to the property. We anticipate that the market will have recovered from the recent recession by the expected opening date of the proposed subject property, January 1, 2014. In the initial ramp-up period, the subject is anticipated to drive up demand levels from corporate customers through brand-loyalty programs and favorable rates. The subject's Marriott brand and extensive athletic club are expected to enable the hotel to achieve a stabilized commercial penetration of 100%. The leisure segment will also be actively pursued as a source of demand on weekends, particularly given the attraction of the subject's health club and spa for leisure guests. The hotel hopes to capture groups trading down from higher-rated properties such as the Four Seasons and the Rosewood, though the hotel's group meeting penetration will remain below the market average due to its relatively limited meeting space. We forecast the proposed subject will achieve a stabilized occupancy level by the fourth year of operation.

Based on the preceding analysis, the following forecast of occupancy results. Dividing the total number of room nights captured by the subject property's annual number of available room nights (calculated as 230 x 365) produces the projected occupancy percentage.

Table 2-8 Forecast of Subject Property's Occupancy

Market Segment	2014	2015	2016	2017	2018	2019
Commercial						
Demand	342,905	353,561	355,759	357,731	359,477	361,232
Market Share	10.1 %	10.1 %	10.6 %	10.6 %	10.6 %	10.6 %
Capture	34,677	35,755	37,670	37,879	38,064	38,250
Penetration	95 %	95 %	100 %	100 %	100 %	100 %
Meeting and Group						
Demand	146,046	150,559	151,465	152,292	153,038	153,788
Market Share	7.4 %	7.4 %	7.9 %	7.9 %	7.9 %	7.9 %
Capture	10,734	11,066	11,922	11,987	12,045	12,104
Penetration	69 %	69 %	74 %	74 %	74 %	74 %
Leisure						
Demand	75,780	78,106	78,558	78,979	79,367	79,758
Market Share	10.8 %	11.7 %	12.6 %	15.3 %	15.3 %	15.3 %
Capture	8,148	9,139	9,922	12,087	12,147	12,207
Penetration	101 %	110 %	119 %	144 %	144 %	144 %
Total Room Nights Captured	**53,559**	**55,960**	**59,514**	**61,953**	**62,256**	**62,561**
Available Room Nights	83,950	83,950	83,950	83,950	83,950	83,950
Subject Occupancy	**64 %**	**67 %**	**71 %**	**74 %**	**74 %**	**75 %**
Marketwide Available Room Nights	789,495	789,495	789,495	789,495	789,495	789,495
Fair Share	**11 %**	**11 %**	**11 %**	**11 %**	**11 %**	**11 %**
Marketwide Occupied Room Nights	564,730	582,226	585,783	589,002	591,883	594,778
Market Share	**9 %**	**10 %**	**10 %**	**11 %**	**11 %**	**11 %**
Marketwide Occupancy	**72 %**	**74 %**	**74 %**	**75 %**	**75 %**	**75 %**
Total Penetration	**89 %**	**90 %**	**96 %**	**99 %**	**99 %**	**99 %**

Table 2-9 Forecast of Subject Property's Market Segmentation

	2014	2015	2016	2017	2018	2019
Commercial	65 %	64 %	63 %	61 %	61 %	61 %
Meeting and Group	20	20	20	19	19	19
Leisure	15	16	17	20	20	20
Total	100 %	100 %	100 %	100 %	100 %	100 %

Overall, the proposed Renaissance ClubSport in Menlo Park is expected to open in January 2014 and immediately strongly penetrate the commercial and leisure market segments. As the property stabilizes its operations, the property is forecast to moderately increase its meeting and group penetration.

We have chosen to use a stabilized occupancy of 74%. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given any and all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the subject property may operate at occupancies above this stabilized level, we believe it equally possible for new competition and temporary economic downturns to force the occupancy below this selected point of stability.

Average Rate Analysis

The proposed subject property's average rate has been projected by individual market segments. Due to its new construction and unique product offering, the proposed subject property is expected to attain an average rate premium over most of its local competitors, but its average rate is expected to remain below those of the Four Seasons and Rosewood, which are in the luxury lodging tier. The following table identifies the base-year segmented average rates and the growth rates that have been applied to each rate through the stabilized year. As a context for the average rate growth factors, note that we have applied a base underlying inflation rate of 3.0% throughout our projection. We anticipate that the proposed subject will be required to build up to its stabilized average rate by providing initial-year discounts, which we have estimated at 5.0% in year one and 3.0% in year two.

Table 2-10 Subject Property's Average Rate Forecast

	2010	2011	2012	2013	2014	2015	2016	2017
Commercial								
Average Rate Growth	0.0 %	3.5 %	5.0 %	8.0 %	7.0 %	6.0 %	4.0 %	3.0 %
Captured Room Nights		0	0	0	34,677	35,755	37,670	37,879
Rooms Revenue		$0	$0	$0	$8,056,641	$8,805,453	$9,648,243	$9,992,780
Average Rate	$185.00	$191.48	$201.05	$217.13	$232.33	$246.27	$256.12	$263.81
Meeting and Group								
Average Rate Growth	0.0 %	3.5 %	6.0 %	7.0 %	7.0 %	5.0 %	4.0 %	3.0 %
Captured Room Nights		0	0	0	10,734	11,066	11,922	11,987
Rooms Revenue		$0	$0	$0	$2,157,296	$2,335,166	$2,616,343	$2,709,536
Average Rate	$160.00	$165.60	$175.54	$187.82	$200.97	$211.02	$219.46	$226.04
Leisure								
Average Rate Growth	0.0 %	3.5 %	5.0 %	7.0 %	6.0 %	5.0 %	4.0 %	3.0 %
Captured Room Nights		0	0	0	8,148	9,139	9,922	12,087
Rooms Revenue		$0	$0	$0	$1,405,969	$1,655,940	$1,869,725	$2,346,074
Average Rate	$140.00	$144.90	$152.15	$162.80	$172.56	$181.19	$188.44	$194.09
Total								
Average Rate Growth	0.0 %	3.5 %	5.2 %	7.7 %	5.4 %	5.4 %	3.9 %	2.3 %
Captured Room Nights					53,559	55,960	59,514	61,953
Rooms Revenue					$11,619,906	$12,796,560	$14,134,311	$15,048,389
Average Rate (Before Discount)	$175.50	$181.64	$191.06	$205.84	$216.95	$228.67	$237.49	$242.90
Discount		0.0 %	0.0 %	0.0 %	5.0 %	3.0 %	0.0 %	0.0 %
Average Rate After Discount		181.64	191.06	205.84	206.11	221.81	237.49	242.90
Average Rate in Base Year Dollars		$171.22	$174.84	$182.88	$177.79	$185.76	$193.10	$191.75
Market-wide Average Rate		$179.57	$188.87	$203.49	$214.48	$226.06	$234.78	$240.12
Subject Average Rate Penetration					96.1 %	98.1 %	101.2 %	101.2 %

For the purposes of this analysis, we have used 2016 as the stabilized year for average rate. Room rates are currently depressed having declined by 14.7% in 2009 due to the impact of the economic recession. Operators anticipate no average rate growth in 2010, with a gradual recovery thereafter. A rebound in marketwide average rate is projected beginning in 2012 through 2016, once occupancy levels have recovered. The subject property has been positioned to achieve a stabilized average rate of roundly $175.50 in 2010 base year dollars, above the rate of the Sheraton and Crowne Plaza but below the rate of the Westin.

Hotel Occupancy and Average Rate Conclusion

As with the analysis of the subject's occupancy projections, the forecast of average rate represents fiscal years beginning January 1, 2014. Based upon the preceding analysis, the following table sets forth our calendar year forecast of the proposed subject property's occupancy, average rate, and RevPAR.

Table 2-11 Forecast of Occupancy, Average Rate, and RevPAR

Year	Occupancy	Average Rate Before Discount	Discounts	Average Rate After Discount	% Change	RevPAR	% Change
2014	64 %	$216.95	5.0 %	$206.11	--	$131.49	--
2015	67	228.67	3.0	221.81	7.6 %	147.86	12.4 %
2016	71	237.49	0.0	237.49	7.1	168.37	13.9
2017	74	242.90	0.0	242.90	2.3	179.25	6.5
2018	74	250.18	0.0	250.19	3.0	184.63	3.0
2019	74	257.69	0.0	257.69	3.0	190.17	3.0

CLUBSPORT SUPPLY AND DEMAND ANALYSIS

The purpose of this section is to investigate current supply and demand trends as indicated by the current competitive market, and set forth a basis for the projection of membership capacity for the proposed ClubSport health club, a part of the subject property.

Local Health Club Supply Analysis

The local health club market includes the cities of Menlo Park, Palo Alto, Atherton, Redwood City, San Carlos, the northern part of Mountain View, and the southern part of San Mateo. About 10 existing facilities could potentially compete with the proposed Renaissance ClubSport facility; only two fitness clubs are currently located in Menlo Park. Seven of the comparable fitness facilities are about one-third the size of the proposed subject health club.

The ClubSport will be more akin to a country club due to its resort-like ambiance; it will contain approximately 68,709 square feet of indoor capacity, including a gymnasium, spa, indoor pool, and areas shared with the Renaissance Hotel. Therefore, due to differences in the size, quality, pricing, and brand affiliation of the proposed subject, none of the local facilities is considered to be truly competitive with the proposed ClubSport, with the exception of the Pacific Athletic Club.

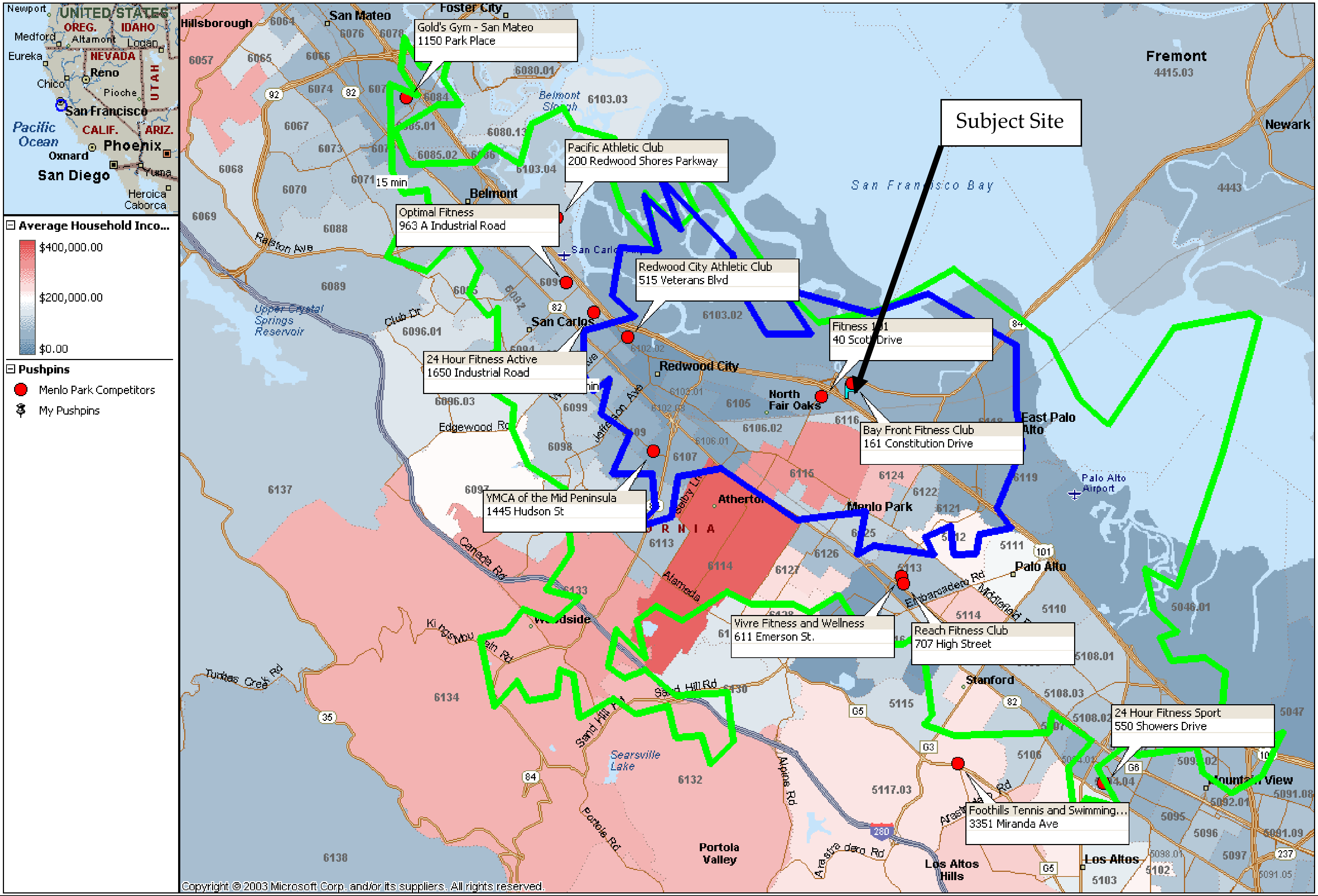
Comparable Clubs in the San Francisco Peninsula

For purposes of analyzing health club membership trends and the demand for health clubs in the area, we have searched for health club facilities in the area that are comparable to the ClubSport health club to some extent. The following chart and map provide an overview of the comparable health clubs in the 10-mile radius:

Table 2-12 Comparable Clubs in Market

Property	Size (Square Feet)	Estimated Membership	Square Foot per Member	Membership Type	2010 Initiation Fees	2010 Monthly Fees	Facilities and Amenities															
							Tennis	Group Exercise	Pool	Racquetball	Basketball	Childcare	Day Spa	Sauna/Steam	Whirlpool	Physical Therapy	Nutrition/WM	Junior Programs	Towel Service	Other	Parking	Hours
Subject Property 150 Independence Drive Menlo Park	68,705	4,600	14.9	Average	$650	$180	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Restaurant Café	Self-Park and Valet	M-F 5-11, S-S 7-9
Pacific Athletic Club 200 Redwoed Shores Parkway Redwood City	85,000	5,000	17.0	Single Couple Family	$1,300 1,950 2,300	$163 244 286	Y	Y	Y	Y	Y	$7/hour	Y	Y	Y	Y	Y	Y	Y	Restaurant	Self-Park and Valet	M-F 5-11, S-S 7-9
Gold's Gym 515 Veterans Boulevard Redwood City	12,000	3,200	3.8	Option 1 Option 2 Option 3	$99 199 399	$45 35 25	N	Y	Y	N	N	N	N	Y	Y	Y	Y	N	N	N/A	Self-Park	M-F 5-10, F 5-9, S 8-6
Fitness 101 40 Scott Drive Menlo Park	15,000	1,800	8.3	Single Couple Dependent	$99 50 25	$66 47 33	N	Y	N	N	Y	$5/hour	N	Y	N	Y	Y	N	Y	N/A	Limited Self-Park	M-T 5-10, F 5-8, S-S 7-6
Vivre Fitness 611 Emerson Street Palo Alto	8,000	450	17.8	Single Couple	N/A N/A	$89 - 154 $140 - 250	N	Y	N	N	N	$7/hour	N	N	N	Y	Y	N	Y	N/A	Street Parking	M-T 5-9, F 5-7, S 7-6, S 8-4
Reach Fitness Club 707 High Street and 833 Emerson Street Palo Alto	10,000	N/A	N/A	Single Couple	$225 350	$65 115	N	Y	N	N	N	$6/ 90-min	N	N	N	Y	N	N	N	Pilates Studio	Street Parking	M-T 5-9, F 5-8, S-S 7-6
Form Fitness 445 Bryant Street Palo Alto	7,000	N/A	N/A	Single Couple	$250 500	$109 142	N	Y	N	N	N	Y	N	N	N	Y	Y	N	Y	N/A	Validated Parking	M-T 5-11, F 5-9, S-S 7-7
Bayfront Fitness Club 161 Constitution Drive Menlo Park	6,000	500	12.0	Single	$55	$99	N	Y	N	N	N	N	N	N	N	Y	N	N	Y	N/A	Self-Parking	M-F 5-9, S-S 8-6
24 Hour Fitness Sport Mountain View 550 Showers Drive Mountain View	40,000	N/A	N/A	Individual	$130 - 150	$25 - 50	N	Y	Y	N	N	$3 visit	N	Y	Y	Y	Y	Y	N	N/A	Self-Parking	24 HOUR
24 Hour Fitness Active San Carlos 1650 Industrial Road San Carlos	40,000	N/A	N/A	Individual	$0 - 100	$24 - 49	N	Y	N	N	N	$3 visit	N	Y	Y	Y	Y	N	N	N/A	Self-Parking	24 HOUR
Optimal Fitness 963 A Industrial Road San Carlos	3,000	N/A	N/A	Individual	$250 - 700	$130	N	Y	N	N	N	N	Y	Y	N	Y	Y	N	N	Infrared Sauna	Self-Parking	M-T 6-8, F 6-7, S 8-2, S 9-1

Map of Health Clubs in the Local and Expanded Market – Map Provided by Leisure Sports



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Only the Pacific Athletic Club can be considered truly comparable to the proposed subject ClubSport. None of the researched comparables are expected to become competitive with the subject health club, due to their distance, and lack of comparability in terms of facilities, pricing, and amenities.

Changes in Health Club Supply

Based on our research, no other health club development is planned in the near future. However, future improvement in market conditions will raise the risk of increased competition. It is important to note that there is a risk of new supply due to the low barriers to entry for smaller health club facilities. These types of facilities can be developed at a low cost in a small amount of space within an existing office building or retail development. These types of facilities appeal to a consumer with a different demographic profile than that of the subject, and would not be considered competitive. The appraisers' forthcoming forecast of stabilized membership capacity and fees is intended to reflect the risk of future competitive developments.

While we have taken reasonable steps to investigate proposed club projects and their status, due to the nature of real estate development, it is impossible to determine with certainty every club 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 value of the subject property may be positively or negatively affected.

Health Club Demand Analysis

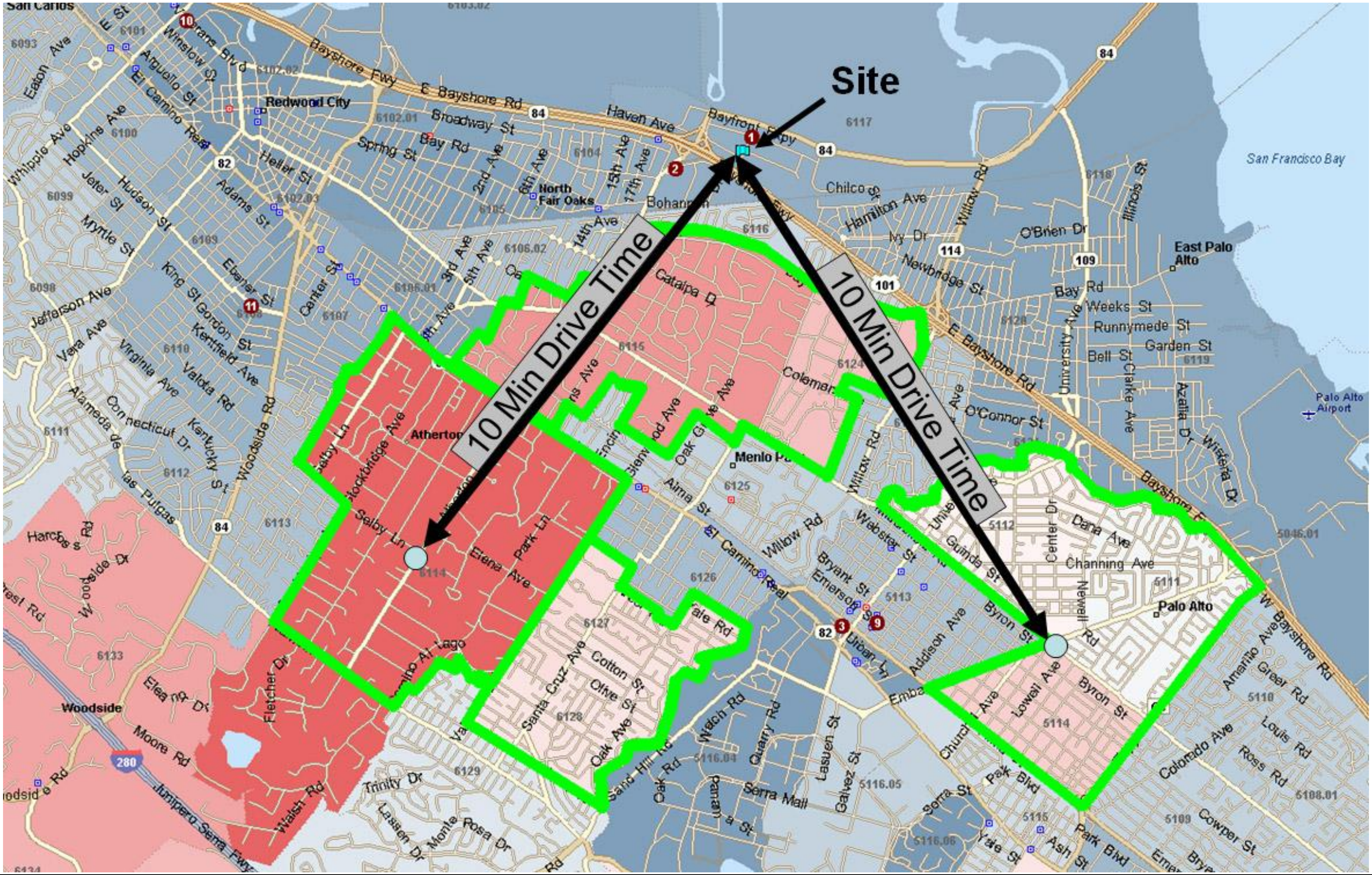
There are several demand factors to consider in the fitness industry, but the two most important are population density and travel time. Large club operators situate their facilities where at least 50,000 and preferably 100,000 people are proximate to the facility, while smaller club operators can thrive in smaller markets. The market area contains facilities that are all located within a 10- to 15-minute drive of the subject site. The scope of the competitive market is limited to a short drive time since health club members will typically not join a facility that requires more than 12 minutes of drive time from their homes. The subject market provides exceptional demographics. Within a five-mile radius of the subject site are approximately 235,600 residents, of which roundly 40,600 residents earn an average household income above $100,000, according to a demographic study provided by Leisure Sports. Within a three-mile radius there are 116,700 residents, of which roundly 15,700 residents earn an average household income above $100,000. The following table, provided by Leisure Sports, illustrates a comparative demographic analysis of the subject site compared to other existing ClubSport facilities. The map following the demographic analysis highlights the communities within a 10-minute drive of the subject site, a typical drive time for athletic club members. The ClubSport will be able to draw from a very affluent residential and commercial base.

Table 2-13 Comparative Demographic Information –Provided by Leisure Sports

150 Independence Drive
Menlo Park, CA 94025-1136

	ClubSport Pleasanton	ClubSport Fremont	ClubSport Oregon	RCS Walnut Creek	Average of the 4	Subject Site	Subject Site %
TOTAL POPULATION							
1-Mile Radius	6,534	1,784	9,896	21,194	9,852	10580	107.4%
2-Mile Radius	40,486	14,791	40,437	66,298	40,503	46709	115.3%
3-Mile Radius	82,598	50,344	78,744	127,759	84,861	116688	137.5%
5-Mile Radius	132,698	165,558	182,758	252,864	183,470	235582	128.4%
7-Mile Radius	200,662	335,398	354,068	353,813	310,985	345187	111.0%
10-Mile Radius	496,992	760,845	692,423	457,377	601,909	648353	107.7%
POPULATION BY AGE							
15-25: 5-Mile Radius	16,057	21,522	22,845	29,838	22,566	37693	167.0%
25-34: 5-Mile Radius	15,261	22,681	23,576	29,080	22,649	34159	150.8%
35-54: 5-Mile Radius	47,905	55,627	57,752	75,860	59,286	67847	114.4%
55-64: 5-Mile Radius	15,526	15,894	22,479	32,619	21,629	23087	106.7%
> 64: 5-Mile Radius	10,218	14,404	19,007	40,205	20,958	26385	125.9%
Median Age (5mi)	38.0	36.2	38.0	41.2	38	35	90.7%
HOUSEHOLD INCOME >$100K							
1-Mile Radius	1,273	276	965	3,828	1,586	1446	91.2%
2-Mile Radius	7,458	2,783	4,863	10,839	6,486	6001	92.5%
3-Mile Radius	15,751	8,775	10,195	20,477	13,800	15768	114.3%
5-Mile Radius	26,732	24,804	24,372	39,262	28,793	40586	141.0%
7-Mile Radius	43,672	50,456	45,925	56,207	49,065	68583	139.8%
10-Mile Radius	84,186	113,306	76,638	74,406	87,134	126639	145.3%
Per Capita Income (3mi)	$50,044	$46,919	$38,142	$45,274	45,095	$41,436	91.9%
Ave HH Income (3mi)	$141,666	$151,121	$95,095	$108,511	124,098	$125,273	100.9%
Median HH Income (3mi)	$108,139	$110,002	$68,458	$82,148	92,187	$80,224	87.0%
TOTAL EMPLOYMENT							
1-Mile Radius	26,746	10,309	13,647	8,397	14,775	6782	45.9%
2-Mile Radius	40,801	35,391	27,613	48,165	37,993	31798	83.7%
3-Mile Radius	60,027	63,069	54,575	71,851	62,381	70772	113.5%
5-Mile Radius	79,504	144,473	102,759	117,312	111,012	133825	120.6%
TOTAL BUSINESSES							
1-Mile Radius	1,987	376	893	834	1,023	422	41.3%
2-Mile Radius	2,872	1,361	2,052	4,735	2,755	2324	84.4%
3-Mile Radius	4,349	2,688	4,552	8,603	5,048	6744	133.6%
5-Mile Radius	6,594	6,890	9,319	14,412	9,304	12342	132.7%
ENTERTAINMENT/RECREATION SPENDING (3 Mile)							
Average Spent	$6,679	$7,207	$4,451	$5,064	5,850	5658	96.7%
Spending Potential Index	195	210	130	148	171	175	102.5%
HOUSEHOLDS BY TYPE (year 2000)							
% Family Households (3mi)	74%	81%	65%	60%	70%	61%	87.0%
% Non-family Households (3mi)	26%	19%	35%	40%	30%	39%	130.5%
NUMBER OF FAMILIES							
1-Mile Radius	1,806	503	2,459	4,918	2,422	2280	94.2%
3-Mile Radius	20,721	12,773	20,319	31,744	21,389	23352	109.2%
5-Mile Radius	34,063	39,682	46,936	63,579	46,065	51414	111.6%
Age 25+ with at least an associates degree							
1-Mile Radius	47%	51%	38%	60%	49%	39%	80.4%
3-Mile Radius	54%	54%	49%	54%	53%	46%	86.6%
5-Mile Radius	45%	48%	51%	51%	49%	57%	116.1%

Drive Time Map – Provided by Leisure Sports



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Demand for health club facilities is measured by the number of members accommodated in each health club facility. The number of potential members that can be accommodated in the market is dependent on various demographic variables in the market. Based on the analysis of demographic variables in the local market and demographic comparison of the proposed and existing ClubSport facilities, and a comparison of capacity parameters for local facilities as well as other ClubSport facilities, the total capacity of the proposed ClubSport was estimated. The following table shows the estimated total capacity of the proposed ClubSport Menlo Park based on a norm of 15.0 square feet per club member.

Table 2-14 Estimated Capacity Based on Parameters

Parameter	Sq Ft.	Sq Ft./Member	Estimated Capacity
Total Square Footage	68,705	15.0	4,580

It can be seen that the suggested capacity of the proposed subject athletic club is roundly 4,600 members. Based on conversations with Leisure Sports, the existing ClubSport in Walnut Creek has reached a stabilized level of operation with roundly 4,500 members currently enrolled. These numbers are appropriate considering the high quality and service level that are needed and required by an upscale, multipurpose health club facility such as the ClubSport in order to achieve the desired membership fees and become profitable. These findings are important as they suggest club members will be well-served by the proposed facilities. Based on all the information available, and the current capacity at comparable ClubSport facilities, we have estimated that the total capacity of the proposed subject club will be 4,600, exclusive of club usage by hotel guests.

PROJECTION OF CLUBSPORT MEMBERSHIP REVENUE

After determining the total membership capacity for the proposed ClubSport health club, the pace of membership sales is forecast to a period of stabilization or full capacity. Then, membership initiation and monthly dues are forecast based on fees attained at comparable and competitive facilities. A rate of attrition, or the percentage of normal turnover of members, and the number of replacement memberships are forecast to determine the number of new and existing memberships each year. Initiation fees and monthly dues are then calculated to derive a total ClubSport membership revenue projection. The membership revenue levels provide the basis for estimating most other income and expense categories.

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Forecast of Pre-Opening Sale/Annual Membership Levels

Based on data provided by Leisure Sports for their comparable clubs and our experience in evaluating health club facilities, we have forecast pre-sale and annual membership levels for the proposed ClubSport. The forecast is shown in the following table.

Table 2-15 Annual Membership Calculations for the Proposed ClubSport

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Total Membership Capacity	4,600						
	2013	2014	2015	2016	2017	2018	2019
Starting Membership	0	1,840	3,910	4,140	4,370	4,600	4,600
New Memberships Sold	1,840	2,070	230	230	230	0	0
Member Attrition (% of Starting Membership)		32%	28%	24%	24%	24%	24%
Member Attrition		589	1,095	994	1,049	1,104	1,104
Replacement Memberships		589	1,095	994	1,049	1,104	1,104
Year-end Membership	1,840	3,910	4,140	4,370	4,600	4,600	4,600
% of Stabilized Membership	40.0%	85.0%	90.0%	95.0%	100.0%	100.0%	100.0%
Average Membership		2,875	4,025	4,255	4,485	4,600	4,600
% of Stabilized Membership		62.5%	87.5%	92.5%	97.5%	100.0%	100.0%

It is assumed that the health club will be aggressively marketed before its opening in January 2014, resulting in membership pre-sales of 40% of the club capacity—a level in line with Leisure Sports' experience at its other club facilities. Based on a review of recent data provided by Leisure Sports Inc. and our research of the health club market, we forecast the Renaissance ClubSport Menlo Park to reach a stabilized membership base in the fifth projection year. Our discussions with Leisure Sports revealed that the ClubSport Walnut Creek reached a stabilized level of operation in the fifth year of operation. The attrition rate of 24% in the stabilized year is considered appropriate for the proposed subject property. This attrition rate is in line with historical rates evidenced at the Walnut Creek ClubSport facility.

Projection of Member Initiation and Monthly Dues

Membership revenue is derived from the fees generated from new memberships, or initiation fees, and monthly dues collected from existing members for continuous usage of the health club. The following chart shows 2010 average initiation fees and monthly dues for the set of comparable health clubs and fitness facilities in the subject market area:

Table 2-16 Initiation Fees & Monthly Dues at Comparable Facilities

Club	2010 Individual Initiation Fee	2010 Individual Monthly Dues
Local Comparable Facilities		
Pacific Athletic Club	$1,300	$163
Gold's Gym	99	45
Fitness 101	99	66
Reach Fitness Club	225	65
Form Fitness	250	109
Bayfront Fitness Club	55	99
24 Hour Fitness Sport Mountain View	$130 - 150	$25 - 50
Local Average	$338	$91
Proposed ClubSport	$690	$175

Source: HVS

Most of the local facilities had initiation fees ranging from roundly $100 to $250 and monthly fees ranging from roundly $50 to $100 for single members. It is important to note that these facilities are smaller in size and do not offer the same quality, facilities, and amenities when compared to those at the proposed ClubSport facility, with the exception of the Pacific Athletic Club. Only the Pacific Athletic Club is truly comparable to the subject in the local market; its initiation and monthly fees provide some insight as to how much potential members in the San Francisco Peninsula area are willing to pay in order to use a first-class, multipurpose health club facility.

The following table shows our projection of initiation and monthly fees for the proposed subject club. We have positioned the subject's initiation and monthly fees to be above the comparable fitness and health facilities discussed earlier and below that of the Pacific Athletic Club. The Pacific Athletic Club offers outdoors and indoors tennis courts which will not be provided at the proposed subject property. We positioned the subject's base initiation and monthly fees at $690 and $175, respectively, and projected growth rates in line with the historical growth rates at comparable ClubSport facilities. Note, at the request of Leisure Sports, Inc., we have not included the historical comparable data for the existing ClubSports in our analysis. We have applied discount rates of 35%, 15%, 10%, and 5% to initiation fees in

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2013, 2014, 2015, and 2016, respectively, incurred from the pre-opening year through the third projection year.

Table 2-17 Projected Initiation and Monthly Fees for the Proposed ClubSport

					Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
	Base Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Annual Growth		3%	3%	4%	5%	7%	6%	4%	3%	3%
Base Initiation Fee	$690	$711	$732	$761	$799	$855	$907	$943	$971	$1,000
Fee in 2010 Dollars	$690	$690	$690	$697	$710	$738	$759	$767	$767	$767
Discounts		0%	0%	35%	15%	10%	5%	0%	0%	0%
Projected Initiation Fee	**$690**	**$711**	**$732**	**$495**	**$679**	**$770**	**$861**	**$943**	**$971**	**$1,000**
Fee in 2010 Dollars	$690	$690	$690	$453	$604	$664	$721	$767	$767	$767
Annual Growth		3.0%	3.0%	3.0%	4.0%	4.0%	4.0%	4.0%	3.0%	3.0%
Projected Monthly Fee	**$175**	**$180**	**$186**	**$191**	**$199**	**$207**	**$215**	**$224**	**$230**	**$237**
Fee in 2010 Dollars	$175	$175	$175	$175	$177	$178	$180	$182	$182	$182

Projection of Pre-Opening Revenue

Based upon the assumption that pre-sales of memberships are assumed to start the year prior to the subject's opening, in 2013, pre-opening membership revenue is calculated as follows:

Table 2-18 Pre-Opening Revenue

Percentage of Stabilized Membership Pre-Sales	40%
Stabilized Membership	4,600
Memberships Pre-Sold	1,840
Average Initiation Fee	$495
Total Pre-Opening Revenue	$910,517

According to Leisure Sports, membership pre-sale at the Walnut Creek facility amounted to roundly 1,700 memberships sold, or roundly 40% of stabilized memberships. Given the depth of the subject's market and the limited supply of comparable facilities, it is our opinion that membership pre-sales of 40% of stabilized membership levels is reasonable based on the projected average initiation fee. The pre-opening revenue will be added to the value conclusion based on the projected cash flow of the Renaissance ClubSport.

Total Membership Revenue Projections

Based on the projected annual membership, initiation fees, and monthly dues presented throughout this section of the report, as well as operating statistics for the existing ClubSport facilities, membership revenues for the proposed ClubSport Menlo Park are calculated as follows. Based on historical turnover rates evidenced at the Walnut Creek ClubSport facility, the net turnover rate in the stabilized year is considered appropriate for the proposed subject property.

Table 2-19 Membership Revenue Calculations and Conclusion for the Proposed ClubSport

	2013	Year 1 2014	Year 2 2015	Year 3 2016	Year 4 2017	Year 5 2018	Year 6 2019
Total New and Replacement Memberships (A)	1,840	2,659	1,325	1,224	1,279	1,104	1,104
Average Initiation Fee (B)	$495	$679	$770	$861	$943	$971	$1,000
Initiation Revenue (A x B) (C)	$910,517	$1,806,553	$1,019,818	$1,053,899	$1,205,790	$1,072,199	$1,104,365
Average Yearly Membership (D)		2,875	4,025	4,255	4,485	4,600	4,600
Monthly Dues (E)		$199	$207	$215	$224	$230	$237
Yearly-Equivalent Fees (E x 12 months/year) (F)		$2,387	$2,482	$2,581	$2,685	$2,765	$2,848
Membership Dues Revenue (D x F) (G)	$0	$6,861,233	$9,989,955	$10,983,242	$12,040,008	$12,719,188	$13,100,764
Total Membership Revenue (C+G)	**$910,517**	**$8,667,786**	**$11,009,773**	**$12,037,141**	**$13,245,798**	**$13,791,387**	**$14,205,129**

In conclusion, the facility is expected to reach full capacity in the fifth year of operation, when membership revenues are projected to reach approximately $13.8 million.

Inflation Assumption

Unless otherwise noted, for purposes of this valuation, we have used an underlying inflation rate of 3.0% throughout the projection period as recent data and the most recent inflation forecasts obtained indicate stable inflation rates in the near future.

Comparable Hotel and Health Club Operating Statements

Because the subject improvements are proposed no operating history is available. In order to prepare a forecast of income and expense and gauge the proposed development's profitability, we have reviewed income and expense statements from hotel and health club properties that are comparable to the property's hotel and health club operations, including the Renaissance ClubSport Walnut Creek. These statements were derived from our HVS database of hotel operating statements and the most recent income and expense statements of the Walnut Creek Renaissance ClubSport provided by Leisure Sports, Inc.

FORECAST OF INCOME AND EXPENSE

The following description sets forth the basis for the forecast of income and expense. We anticipate that it will take five years for the proposed subject property to reach a stabilized level of operation. Each revenue and expense item has been forecast based upon our review of the proposed subject hotel's operating budget provided by Marriott International, comparable income and expense statements, and our industry knowledge. The following forecast is based upon calendar years beginning January 1, 2014, and is expressed in inflated dollars for each year.

Revenue and Expense Forecast Assumptions - Proposed Renaissance ClubSport Hotel and Health Club

The following bullet points discuss basic revenue and expense assumptions for the proposed subject property.

- Occupancy and average rate was forecast in a previous section of this report. The subject property is projected to stabilize at 74.0% with an average rate of $174.83 in 2017. Following the stabilized year, the subject property's average rate is projected to increase along with the underlying rate of inflation.
- Food and beverage revenue is will be generated by the Bistro restaurant, the deli shop, in-house banquet events, and room service. Food revenue is forecast at $55.34 per occupied room in the first projection year, or 26.8% of rooms revenue. The per-occupied-room amount increases to $70.05 by the stabilized year, or 28.0% of rooms revenue. Beverage revenue to be $11.07 per occupied room in the first projection year, or 20.0% of food revenue. The per-occupied-room amount increases to $14.01 by the stabilized year, or 20.0% of food revenue.
- The subject property's telephone revenue has been forecast to stabilize at 1.3% of rooms revenue, or $3.26 per occupied room.
- Club membership revenue, as projected in a previous section of this report, is expected to stabilize at a maximum capacity of 4,600 members, an average initiation fee of $971.19, and an average monthly dues of $230.42 in 2018. Following the stabilized year, the subject property's fees are projected to increase at a level equal to the underlying rate of inflation.
- The projections of the subject's programming and health spa revenue are primarily based on data provided by Leisure Sports—the historical performance of existing ClubSport's spa was reviewed. Programming revenues for the proposed subject health club have been forecast at $333.29 per member, or 11.0% of club membership revenue, in the first projection year, stabilizing at 375.12 per member, or 12.5% of club

membership revenue. Health spa revenues for the proposed subject property have been forecast at $567.58 per member, or 18.8% of club membership revenue, in the first projection year, stabilizing at $516.69 per member, or 17.2% of club membership revenue.

- The level of other revenue is expected to increase as hotel occupancy levels improve and the club's membership reaches capacity. Other income for the subject property has been forecast at $662,000 in the first projection year, stabilizing at $777,000 in 2018.
- Rooms expense ratio has been forecast at 27.7% in year one, stabilizing at 23.5 % in 2018.
- Food and beverage expense ratios are expected to moderately decline as hotel occupancy and banquet revenues increase. Food and beverage expense ratios are forecast at 94.9% in the first projection year, stabilizing at 81.4 % in 2018.
- Club membership, programming, and spa expense ratios for the proposed subject ClubSport have been forecast to decline as departmental revenue levels increase through the stabilized year. As such the departmental expense ratio for club membership, programming, and spa have been forecast at 27.8%, 91.4%, and 75.5%, respectively, of departmental revenues in the first projection year, stabilizing at 23.2%, 75.1%, and 67.6%, respectively, in 2018. The stabilized expense ratio reflects the proposed subject's efficient health club design and configuration.
- Other income expense ratios have been forecast at 41.2% in year one, stabilizing at 40.0% in 2018.
- Based on historical data from the existing Renaissance ClubSport in Walnut Creek provided by Leisure Sports, the proposed subject property is expected to benefit from of cost efficiencies from the joint operation of the hotel and health club. As such, administrative and general expense has been forecast at 10.3% of total revenue in the first projection year, stabilizing at 8.6% of total revenue in 2018.
- Similar to administrative and general expense, marketing expense is expected to benefit from of cost efficiencies from the joint operation of the hotel and health club. As such, marketing expense has been forecast at 7.9% of total revenue in the first projection year, stabilizing at 6.6% of total revenue in 2018.

- Based on historical data from the existing Renaissance ClubSport in Walnut Creek provided by Leisure Sports and the expectation of cost efficiencies from the joint operation of the hotel and health club, property operations and maintenance expense has been forecast at 2.9% of total revenue in the first year, stabilizing at 3.0% of total revenue in 2018.
- Utility expenses are highly tied to local utility rates in the Menlo Park market; therefore, we have projected the energy expense based on the budget forecast provided by Marriott International. We have project utilities expense for the subject property to be 2.5% of total revenue or $2,977 per available room in year one, stabilizing at 2.1% of total revenue or $3,648 per available room.
- The subject property is expected to be managed by Marriott International. Therefore, the management fee forecast has been adjusted to factor in a base management fee of 3.0% of total revenue. No incentive management fee has been considered in our analysis because they are generally deal specific. However, Marriott will likely earn an additional incentive fee as at some point subsequent to stabilization.
- In keeping with Proposition 13, the proposed Renaissance ClubSport's property tax burden in the first year is calculated on the estimated fee simple market value of the proposed health club determined in this market study. Based on the estimated value of the proposed Renaissance ClubSport, the projected tax burden for the proposed hotel and health club in the first projection year is indicated in the following table. This amount is forecast to increase by 2.0% annually thereafter, the maximum allowed by state law.

Table 2-20 Projected Property Tax for the Proposed Renaissance ClubSport

Estimated Market Value of Fee Simple Interest		Tax Rate	First Year's Tax Burden
$106,500,000	x	1.1132%	$1,185,579

- Insurance expense has been forecast based on the budget forecast provided by Marriott International as well as historical data from the existing Renaissance ClubSport Walnut Creek provided by Leisure Sports. As such, insurance expense has been forecast at $489,000 in the first projection year and to increase annually at growth rates in tandem with the underlying rate of inflation.

- Based on the industry norm and the requirement of typical Marriott Management contracts, we have projected a reserve for replacement equal to 4% of total revenue to provide for the timely and periodic replacement of the subject property's furniture, fixtures, and equipment. We’ve adjusted reserve for replacement downward in the first, second, and third year to account for the new improvements.

Based on the preceding analysis, we have formulated a forecast of income and expense for the entire hotel and club operation. The following table presents a detailed forecast through the stabilized year, including amounts per square foot and per member. The second table illustrates our 10-year forecast of income and expense, presented with a lesser degree of detail. The forecasts pertain to annual operating years beginning January 1, 2014, and are expressed in inflated dollars for each year.

Table 2-21 Detailed Forecast of Income and Expense, Proposed Renaissance ClubSport, Menlo Park, California ('000s)

	2014				2015				2016				2017				2018			
Number of Rooms:	**230**				**230**				**230**				**230**				**230**			
Occupancy:	**64%**				**67%**				**71%**				**74%**				**74%**			
Average Rate:	**$206.11**				**$221.81**				**$237.49**				**$242.90**				**$250.19**			
RevPAR:	**$131.91**				**$148.61**				**$168.62**				**$179.74**				**$185.14**			
Days Open:	**365**				**365**				**365**				**365**				**365**			
Occupied Rooms:	**53,728**				**56,247**				**59,605**				**62,123**				**62,123**			
Average Membership:	**2,875**				**4,025**				**4,255**				**4,485**				**4,600**			
Average Monthly Dues:	**$198.88**				**$206.83**				**$215.10**				**$223.71**				**$230.42**			
Average Initiation Fees:	**$679.46**	**%Gross**	**PAR**	**POR/PM**	**$769.79**	**%Gross**	**PAR**	**POR/PM**	**$861.31**	**%Gross**	**PAR**	**POR/PM**	**$942.91**	**%Gross**	**PAR**	**POR/PM**	**$971.19**	**%Gross**	**PAR**	**POR/PM**
REVENUE																				
Rooms	$11,074	41.4 %	$48,148	$206.11	$12,476	38.8 %	$54,243	$221.81	$14,156	39.9 %	$61,548	$237.50	$15,090	39.4 %	$65,609	$242.91	$15,542	39.2 %	$67,574	$250.18
Food	2,973	11.1	12,926	55.34	3,700	11.5	16,087	65.78	3,977	11.2	17,293	66.73	4,225	11.0	18,370	68.01	4,352	11.0	18,921	70.05
Beverage	595	2.2	2,585	11.07	740	2.3	3,217	13.16	795	2.2	3,459	13.35	845	2.2	3,674	13.60	870	2.2	3,784	14.01
Telephone	158	0.6	688	2.94	170	0.5	738	3.02	184	0.5	800	3.09	197	0.5	855	3.17	203	0.5	881	3.26
Club Membership**	8,668	32.4		3,014.88	11,010	34.2		2,735.35	12,037	33.9		2,828.94	13,246	34.6		2,953.36	13,791	34.8		2,998.13
Programming**	958	3.6		333.29	1,382	4.3		343.29	1,505	4.2		353.59	1,633	4.3		364.20	1,726	4.4		375.12
Health Spa**	1,632	6.1		567.58	2,010	6.2		499.46	2,139	6.0		502.59	2,273	5.9		506.71	2,377	6.0		516.69
Other Income	662	2.5	2,880	12.33	691	2.1	3,004	12.28	724	2.0	3,146	12.14	754	2.0	3,280	12.14	777	2.0	3,379	12.51
Total Revenues	26,720	100.0	116,174	497.32	32,178	100.0	139,906	572.10	35,517	100.0	154,420	595.87	38,263	100.0	166,361	615.93	39,638	100.0	172,338	638.05
DEPARTMENTAL EXPENSES *																				
Rooms	3,070	27.7	13,347	57.13	3,216	25.8	13,983	57.18	3,387	23.9	14,726	56.82	3,546	23.5	15,418	57.08	3,652	23.5	15,880	58.79
Food & Beverage	3,384	94.9	14,713	62.99	3,766	84.8	16,374	66.95	3,952	82.8	17,183	66.30	4,127	81.4	17,944	66.43	4,251	81.4	18,482	68.43
Telephone	216	136.3	937	4.01	225	132.9	980	4.01	237	128.7	1,030	3.97	248	125.9	1,077	3.99	255	125.9	1,109	4.11
Club Membership**	2,414	27.8		839.52	2,784	25.3		691.62	2,929	24.3		688.27	3,080	23.2		686.65	3,205	23.2		696.64
Programming**	876	91.4		304.66	1,092	79.0		271.22	1,163	77.3		273.43	1,239	75.8		276.16	1,296	75.1		281.83
Health Spa**	1,231	75.5		428.33	1,403	69.8		348.54	1,473	68.9		346.10	1,545	68.0		344.56	1,606	67.6		349.22
Other Expenses	273	41.2	1,186	5.08	282	40.8	1,226	5.01	292	40.3	1,269	4.90	302	40.0	1,312	4.86	311	40.0	1,352	5.00
Total	11,463	42.9	49,840	213.36	12,768	39.7	55,512	227.00	13,433	37.8	58,402	225.36	14,086	36.8	61,244	226.75	14,577	36.8	63,377	234.64
DEPARTMENTAL INCOME	15,257	57.1	66,334	283.96	19,411	60.3	84,394	345.10	22,084	62.2	96,018	370.51	24,177	63.2	105,118	389.18	25,061	63.2	108,961	403.41
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	2,752	10.3	11,965	51.22	2,986	9.3	12,982	53.09	3,153	8.9	13,707	52.89	3,302	8.6	14,356	53.15	3,408	8.6	14,819	54.86
Marketing	2,117	7.9	9,204	39.40	2,297	7.1	9,986	40.84	2,425	6.8	10,544	40.69	2,540	6.6	11,043	40.88	2,622	6.6	11,399	42.20
Prop. Operations & Maint.	762	2.9	3,314	14.18	930	2.9	4,045	16.54	1,037	2.9	4,508	17.39	1,143	3.0	4,969	18.40	1,180	3.0	5,130	18.99
Utilities	677	2.5	2,945	12.61	735	2.3	3,196	13.07	776	2.2	3,374	13.02	813	2.1	3,534	13.08	839	2.1	3,648	13.50
Total	6,309	23.6	27,428	117.42	6,948	21.6	30,209	123.53	7,391	20.8	32,133	123.99	7,797	20.3	33,902	125.52	8,049	20.3	34,995	129.56
HOUSE PROFIT	8,948	33.5	38,906	166.55	12,463	38.7	54,185	221.57	14,694	41.4	63,885	246.52	16,380	42.9	71,215	263.66	17,012	42.9	73,966	273.85
Management Fee	802	3.0	3,485	14.92	965	3.0	4,197	17.16	1,065	3.0	4,633	17.88	1,148	3.0	4,991	18.48	1,189	3.0	5,170	19.14
INCOME BEFORE FIXED CHARGES	8,147	30.5	35,420	151.63	11,497	35.7	49,988	204.41	13,628	38.4	59,252	228.64	15,232	39.9	66,225	245.19	15,823	39.9	68,796	254.71
FIXED EXPENSES																				
Property Taxes	1,186	4.4	5,155	22.07	1,209	3.8	5,257	21.49	1,233	3.5	5,361	20.69	1,258	3.3	5,470	20.25	1,283	3.2	5,578	20.65
Insurance	483	1.8	2,100	8.99	497	1.5	2,163	8.84	512	1.4	2,228	8.60	528	1.4	2,295	8.50	544	1.4	2,364	8.75
Reserve for Replacement	267	1.0	1,162	4.97	644	2.0	2,798	11.44	1,065	3.0	4,633	17.88	1,531	4.0	6,654	24.64	1,586	4.0	6,894	25.52
Total	1,936	7.2	8,417	36.03	2,350	7.3	10,218	41.78	3,166	8.9	13,765	53.12	4,082	10.7	17,746	65.70	4,205	10.6	18,282	67.69
NET INCOME	$6,211	23.3 %	$27,003	$115.60	$9,147	28.4 %	$39,770	$162.63	$10,462	29.5 %	$45,487	$175.52	$11,150	29.2 %	$48,479	$179.48	$11,618	29.3 %	$50,514	$187.02

*Departmental expenses are expressed as a percentage of departmental revenues.

**Health club revenues and expenses based on a per member basis instead of a per occupied room basis

Table 2-22 Ten-Year Forecast of Income and Expense, Proposed Renaissance ClubSport, Menlo Park, California ('000s)

	2014		2015		2016		2017		2018	
Number of Rooms:	**230**		**230**		**230**		**230**		**230**	
Occupied Rooms:	**53,728**		**56,247**		**59,605**		**62,123**		**62,123**	
Occupancy:	**64%**		**67%**		**71%**		**74%**		**74%**	
Average Rate:	**$206.11**	**% of**	**$221.81**	**% of**	**$237.49**	**% of**	**$242.90**	**% of**	**$250.19**	**% of**
RevPAR:	**$131.91**	**Gross**	**$148.61**	**Gross**	**$168.62**	**Gross**	**$179.74**	**Gross**	**$185.14**	**Gross**
Average Membership:	**2,875**		**4,025**		**4,255**		**4,485**		**4,600**	
Average Monthly Dues:	**$198.88**		**$206.83**		**$215.10**		**$223.71**		**$230.42**	
Average Initiation Fees:	**$679.46**		**$769.79**		**$861.31**		**$942.91**		**$971.19**	
REVENUE										
Rooms	$11,074	41.4 %	$12,476	38.8 %	$14,156	39.9 %	$15,090	39.4 %	$15,542	39.2 %
Food	2,973	11.1	3,700	11.5	3,977	11.2	4,225	11.0	4,352	11.0
Beverage	595	2.2	740	2.3	795	2.2	845	2.2	870	2.2
Telephone	158	0.6	170	0.5	184	0.5	197	0.5	203	0.5
Club Membership	8,668	32.4	11,010	34.2	12,037	33.9	13,246	34.6	13,791	34.8
Programming	958	3.6	1,382	4.3	1,505	4.2	1,633	4.3	1,726	4.4
Health Spa	1,632	6.1	2,010	6.2	2,139	6.0	2,273	5.9	2,377	6.0
Other Income	662	2.5	691	2.1	724	2.0	754	2.0	777	2.0
Total	26,720	100.0	32,178	100.0	35,517	100.0	38,263	100.0	39,638	100.0
DEPARTMENTAL EXPENSES*										
Rooms	3,070	27.7	3,216	25.8	3,387	23.9	3,546	23.5	3,652	23.5
Food & Beverage	3,384	94.9	3,766	84.8	3,952	82.8	4,127	81.4	4,251	81.4
Telephone	216	136.3	225	132.9	237	128.7	248	125.9	255	125.9
Club Membership	2,414	27.8	2,784	25.3	2,929	24.3	3,080	23.2	3,205	23.2
Programming	876	91.4	1,092	79.0	1,163	77.3	1,239	75.8	1,296	75.1
Health Spa	1,231	75.5	1,403	69.8	1,473	68.9	1,545	68.0	1,606	67.6
Other Expenses	273	41.2	282	40.8	292	40.3	302	40.0	311	40.0
Total	11,463	42.9	12,768	39.7	13,433	37.8	14,086	36.8	14,577	36.8
DEPARTMENTAL INCOME	15,257	57.1	19,411	60.3	22,084	62.2	24,177	63.2	25,061	63.2
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	2,752	10.3	2,986	9.3	3,153	8.9	3,302	8.6	3,408	8.6
Marketing	2,117	7.9	2,297	7.1	2,425	6.8	2,540	6.6	2,622	6.6
Prop. Operations & Maint.	762	2.9	930	2.9	1,037	2.9	1,143	3.0	1,180	3.0
Utilities	677	2.5	735	2.3	776	2.2	813	2.1	839	2.1
Total	6,309	23.6	6,948	21.6	7,391	20.8	7,797	20.3	8,049	20.3
HOUSE PROFIT	8,948	33.5	12,463	38.7	14,694	41.4	16,380	42.9	17,012	42.9
Management Fee	802	3.0	965	3.0	1,065	3.0	1,148	3.0	1,189	3.0
INCOME BEFORE FIXED CHARGES	8,147	30.5	11,497	35.7	13,628	38.4	15,232	39.9	15,823	39.9
FIXED EXPENSES										
Property Taxes	1,186	4.4	1,209	3.8	1,233	3.5	1,258	3.3	1,283	3.2
Insurance	483	1.8	497	1.5	512	1.4	528	1.4	544	1.4
Incentive Management Fee	0	0.0	0	0.0	355	1.0	765	2.0	793	2.0
Reserve for Replacement	267	1.0	644	2.0	1,065	3.0	1,531	4.0	1,586	4.0
Total	1,936	7.2	2,350	7.3	3,166	8.9	4,082	10.7	4,205	10.6
NET INCOME	$6,211	23.3 %	$9,147	28.4 %	$10,462	29.5 %	$11,150	29.2 %	$11,618	29.3 %

	2019		2020		2021		2022		2023	
Number of Rooms:	**230**		**230**		**230**		**230**		**230**	
Occupied Rooms:	**62,123**		**62,123**		**62,123**		**62,123**		**62,123**	
Occupancy:	**74%**		**74%**		**74%**		**74%**		**74%**	
Average Rate:	**$257.69**	**% of**	**$265.42**	**% of**	**$273.38**	**% of**	**$281.59**	**% of**	**$290.03**	**% of**
RevPAR:	**$190.69**	**Gross**	**$196.41**	**Gross**	**$202.30**	**Gross**	**$208.37**	**Gross**	**$214.62**	**Gross**
Average Membership:	**4,600**		**4,600**		**4,600**		**4,600**		**4,600**	
Average Monthly Dues:	**$237.33**		**$244.45**		**$251.79**		**$259.34**		**$267.12**	
Average Initiation Fees:	**$1,000.33**		**$1,030.34**		**$1,061.25**		**$1,093.09**		**$1,125.88**	
REVENUE										
Rooms	$16,009	39.2 %	$16,489	39.2 %	$16,983	39.2 %	$17,493	39.2 %	$18,018	39.2 %
Food	4,482	11.0	4,617	11.0	4,755	11.0	4,898	11.0	5,045	11.0
Beverage	896	2.2	923	2.2	951	2.2	980	2.2	1,009	2.2
Telephone	209	0.5	215	0.5	221	0.5	228	0.5	235	0.5
Club Membership	14,205	34.8	14,631	34.8	15,070	34.8	15,522	34.8	15,988	34.8
Programming	1,777	4.4	1,831	4.4	1,886	4.4	1,942	4.4	2,000	4.4
Health Spa	2,448	6.0	2,522	6.0	2,597	6.0	2,675	6.0	2,755	6.0
Other Income	800	2.0	824	2.0	849	2.0	875	2.0	901	2.0
Total	40,828	100.0	42,052	100.0	43,313	100.0	44,613	100.0	45,951	100.0
DEPARTMENTAL EXPENSES*										
Rooms	3,762	23.5	3,875	23.5	3,991	23.5	4,111	23.5	4,234	23.5
Food & Beverage	4,378	81.4	4,510	81.4	4,645	81.4	4,784	81.4	4,928	81.4
Telephone	263	125.9	271	125.9	279	125.9	287	125.9	296	125.9
Club Membership	3,301	23.2	3,400	23.2	3,502	23.2	3,607	23.2	3,715	23.2
Programming	1,335	75.1	1,375	75.1	1,417	75.1	1,459	75.1	1,503	75.1
Health Spa	1,655	67.6	1,704	67.6	1,755	67.6	1,808	67.6	1,862	67.6
Other Expenses	320	40.0	330	40.0	340	40.0	350	40.0	360	40.0
Total	15,014	36.8	15,464	36.8	15,928	36.8	16,406	36.8	16,898	36.8
DEPARTMENTAL INCOME	25,814	63.2	26,588	63.2	27,385	63.2	28,207	63.2	29,053	63.2
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	3,511	8.6	3,616	8.6	3,724	8.6	3,836	8.6	3,951	8.6
Marketing	2,700	6.6	2,781	6.6	2,865	6.6	2,951	6.6	3,039	6.6
Prop. Operations & Maint.	1,215	3.0	1,252	3.0	1,289	3.0	1,328	3.0	1,368	3.0
Utilities	864	2.1	890	2.1	917	2.1	944	2.1	973	2.1
Total	8,290	20.3	8,539	20.3	8,795	20.3	9,059	20.3	9,331	20.3
HOUSE PROFIT	17,523	42.9	18,049	42.9	18,590	42.9	19,148	42.9	19,722	42.9
Management Fee	1,225	3.0	1,262	3.0	1,299	3.0	1,338	3.0	1,379	3.0
INCOME BEFORE FIXED CHARGES	16,299	39.9	16,787	39.9	17,290	39.9	17,809	39.9	18,344	39.9
FIXED EXPENSES										
Property Taxes	1,309	3.2	1,335	3.2	1,362	3.1	1,389	3.1	1,417	3.1
Insurance	560	1.4	577	1.4	594	1.4	612	1.4	630	1.4
Incentive Management Fee	817	2.0	841	2.0	866	2.0	892	2.0	919	2.0
Reserve for Replacement	1,633	4.0	1,682	4.0	1,733	4.0	1,785	4.0	1,838	4.0
Total	4,319	10.6	4,435	10.6	4,555	10.5	4,678	10.5	4,804	10.5
NET INCOME	$11,980	29.3 %	$12,352	29.3 %	$12,735	29.4 %	$13,132	29.4 %	$13,540	29.4 %

*Departmental expenses are expressed as a percentage of departmental revenues.

HVS

Valuation

A mortgage-equity, ten-year discounted cash flow analysis has been utilized to convert our ten-year forecast into an opinion of value. The current market for hotels and high quality athletic facilities is relatively inactive due to the credit crisis and the lack of financing available for sales transactions. We anticipate, however, that the real estate transaction market will return to some semblance of normalcy by the date the proposed Renaissance ClubSport is complete and operational, assumed to be January 1, 2014. Assuming a return to more typical mortgage rates and equity return requirements we formulated appropriate capitalization and discount rates to apply to the subject's projected net income available for debt service.

The conversion of the subject property's forecasted net income into an estimate of value was based on the premise that investors typically purchase real estate with a small amount of equity cash (20% to 50%) and a large amount of mortgage financing (50% to 80%). The amounts and terms of available mortgage financing and the rates of return that are required to attract sufficient equity capital formed the basis for allocating the net income between the mortgage and equity components and deriving a value estimate. According to our discussions with lenders, brokers, and investors, fixed-rate debt, while not readily available in today's more cautious lending environment, is being priced at roughly 400 to 600 basis points over the corresponding yield on treasury notes. As of February 10, 2010, the yield on the ten-year T-bill was 3.7%, indicating an interest rate range from 7.7% to 9.7%. While spreads over T-bills may fall as the credit markets normalize, interest rates are expected to rise. Given the proposed subject property's specific attributes and its prospects for future income generation, it is our opinion that the appropriate mortgage rate for this valuation is 8.50%. In the appraisers' opinion, a mortgage interest rate of 8.50% and a 70% loan-to-value ratio are appropriate for the subject property as of its January 1, 2014 date of value.

We have also reviewed two recent investor surveys: the *Korpacz Real Estate Investor Survey* for the third quarter of 2009 and the *CRE/RERC Real Estate Report* for the fall of 2009, as well as yield data derived from HVS appraisals. The measured yields and other parameters vary from survey to survey, but include equity yield rates (alternately known as "leveraged" yield rates), discount rates (alternately known as "free and clear" equity internal rates of return), terminal capitalization rates (alternately known as "exit" or "reversion" capitalization rates), and overall capitalization rates (calculated based on either historical, first year's, or deflated stabilized year's net income). The following tables summarize the range of equity yield, discount rate, terminal capitalization rates, and overall capitalization rates indicated by the hotel sales and the investor surveys for luxury and full-service hotels. The averages for each survey are listed directly underneath the ranges.

Table 2-23 Summary of Investment Parameters

Source	Equity Yield Rate *Average*	Discount Rate *Average*	Terminal Rate *Average*	Overall Rate *Average*
HVS/Hotel Sales Full-Service Hotels	13.9% - 27.5% *19.80%*	8.1% - 16.3% *11.50%*	NR	1.1% - 10.3% *6.10%*
Korpacz *Real Estate Investor Survey* Full-Service Hotels - 3rd Quarter 2009	NR	10.0% - 14.0% *11.69%*	7.50% - 12.0% *10.22%*	6.5% - 14.0% *9.84%*
Korpacz Real Estate Investor Survey Luxury Hotel Market - 3rd Quarter 2009	NR	8.0% - 18.0% *11.41%*	7.0% - 11.25% *9.25%*	7.0% - 12.0% *9.25%*
CRE/RERC Real Estate Report 1st Tier Hotels - Fall 2009	NR	8.0% - 15.0% *11.90%*	7.5% - 13.5% *10.50%*	7.0% - 12.5% *9.90%*

NR = Not reported by Survey

Hotel Sales

Each valuation performed by HVS uses a similar mortgage-equity approach in which income is projected and then discounted to a current value at rates reflecting the cost of debt and equity capital. In the case of hotels that were sold near the date of our valuation, we were able to determine an appropriate equity yield rate by inserting the projection into a valuation model and adjusting the appraised value to reflect the actual sales price by modifying the return assumptions. The following table shows a representative sample of hotels that were sold shortly after we appraised them, along with the imputed equity return based on our valuation approach. Note that overall discount rates are trending up following their recent historic lows in 2006 and 2007, while equity yield rates have actually declined moderately.

Table 2-24 Sample of Hotels Sold

Hotel	Location	Number of Rooms	Date of Sale	Total Property Yield	Equity Yield	Overall Rate Based on Net Operating Income: Historical Year	Projected Year One	Stabilized Year	Equity Dividend
Tuscan Inn	San Francisco, CA	221	Jan-10	13.0 %	17.1 %	6.6 %	6.6 %	10.0 %	6.6 %
W Hotel	San Francisco, CA	404	Jul-09	13.7	16.9	8.0	6.4	10.6	4.0
Hyatt Regency Orange County	Garden Grove, CA	654	Oct-08	10.5	15.8	8.0	6.9	7.7	6.9
Sheraton Gateway LAX	Los Angeles, CA	802	Aug-08	11.0	17.4	6.3	8.1	8.0	8.1
Hyatt Regency	Phoenix, AZ	696	Jul-08	12.5	19.5	10.3	9.0	9.6	9.0
Hilton Lincoln Center	Dallas, TX	500	Jun-08	11.0	17.3	6.9	4.4	9.4	4.4
Four Points Columbus Airport	Columbus, OH	177	Jan-08	12.9	24.7	8.4	8.7	9.9	8.7
Hotel 57	New York, NY	200	Jan-08	10.1	16.7	4.9	3.6	7.5	3.6
Hyatt Regency	Milwaukee, WI	483	Jan-08	11.9	20.7	6.1	8.5	8.7	10.8
Sheraton Hotel	Salt Lake City, UT	362	Dec-07	12.0	20.1	7.4	6.0	9.9	2.2
Hyatt Regency	New Orleans, LA	1184	Dec-07	16.3	26.4	8.1	6.8	13.4	3.8
Aberdeen Woods Conference Center	Peachtree City, GA	233	Nov-07	11.5	19.2	1.1	1.6	9.7	—
Marriott BWI Airport Hotel	Linthicum, MD	309	Nov-07	10.7	21.9	8.8	7.9	7.8	10.9
Crown Plaza	Phoenix, AZ	248	Oct-07	10.7	19.2	7.3	8.0	8.5	8.2
Westin Airport	Atlanta, GA	495	Aug-07	11.6	21.7	6.6	8.1	9.0	8.7
Holiday Inn LAX	Los Angeles, CA	405	Aug-07	13.8	26.8	6.9	7.7	10.2	7.6
Hilton Downtown	St. Louis, MO	195	Aug-07	11.3	20.8	6.8	7.8	8.6	7.8
Hotel Palomar	San Francisco, CA	195	Aug-07	11.1	21.0	5.0	7.6	8.8	8.7
Sheraton Hotel	Nashua, NH	336	Jun-07	13.2	25.2	5.5	8.0	10.4	7.9
Sheraton	Oklahoma City, OK	395	Apr-07	13.8	27.5	7.4	9.2	10.6	9.2
St. Louis Marriott West	St. Louis, MO	300	Mar-07	10.2	18.2	5.8	6.8	8.0	6.8
Renaissance Mayflower	Washington, DC	657	Feb-07	9.6	17.7	3.9	5.5	7.5	5.5
Villa Florence	San Francisco, CA	182	Feb-07	9.1	15.1	3.5	5.2	7.0	5.2
Hilton Westchase & Towers	Houston, TX	297	Feb-07	8.6	13.9	5.8	7.2	7.5	7.2
Sheraton Austin	Austin, TX	365	Jan-07	11.5	21.2	5.3	6.6	8.9	6.6
Stanford Court Hotel	San Francisco, CA	393	Dec-06	8.1	11.7	—	1.4	8.0	1.4
Sheraton Hotel	North Charleston, NC	289	Nov-06	11.0	20.4	4.9	8.1	8.3	8.1
Hyatt Regency	Lexington, KY	365	Nov-06	12.0	21.2	2.3	2.7	10.7	2.7
Sheraton	Danbury, CT	242	Oct-06	9.8	16.3	3.9	4.0	8.2	—

Source: HVS

Equity Yield Rate

Based on the assumed 70% loan-to-value ratio, the risk inherent in achieving the projected income stream, and the anticipated market position of the proposed subject property, it is our opinion that an equity investor is likely to require an equity yield rate of 18%. This estimate is well supported by the equity yield requirements presented previously, where the HVS sales data indicate equity yields ranging from 13.9% to 27.5%, with the majority clustered between 17% and 21%.This equity yield is considered appropriate considering the expected high quality of the Renaissance ClubSport facility, the cost savings of the integrated development, and the historical performance of the existing Renaissance ClubSport facility in Walnut Creek. The 11-year forecast of net income and 10-year forecast of net income to equity are presented in the following table.

Table 2-25 11-Year Forecast of Net Income and 10-Year Forecast of Net Income to Equity

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Occupancy	64 %	67 %	71 %	74 %	74 %	74 %	74 %	74 %	74 %	74 %	74 %
Average Rate	$206.11	$221.81	$237.49	$242.90	$250.19	$257.69	$265.42	$273.38	$281.59	$290.03	$298.73
Net Income Before Debt Service	6,211	9,147	10,462	11,150	11,618	11,980	12,352	12,735	13,132	13,540	15,406
Less: Debt Service	7,205	7,205	7,205	7,205	7,205	7,205	7,205	7,205	7,205	7,205	
Net Income to Equity	**-$994**	**$1,942**	**$3,257**	**$3,945**	**$4,413**	**$4,775**	**$5,147**	**$5,530**	**$5,927**	**$6,335**	
Debt Coverage Ratio	0.86	1.27	1.45	1.55	1.61	1.66	1.71	1.77	1.82	1.88	
Cash-on-Cash Return	-3.1 %	6.1 %	10.2 %	12.3 %	13.8 %	14.9 %	16.1 %	17.3 %	18.5 %	19.8 %	

* The eleventh year's net income is projected prior to the deduction of real estate taxes. The overall going-out rate used to capitalize the eleventh year's net income is loaded with the applicable real estate tax rate to derive a reversionary value estimate, as of the end of year ten, which takes into account the reassessment of the property upon sale.

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Terminal Capitalization Rate

Inherent in this valuation process is the assumption of a sale at the end of the 10-year holding period. The estimated reversionary sales price as of that date is calculated by capitalizing the projected 11th-year net income by an overall terminal capitalization rate. An allocation for the selling expenses is deducted from this sales price, and the net proceeds to the equity interest (also known as the equity residual) are calculated by deducting the outstanding mortgage balance from the reversion.

For purposes of this analysis, we have applied a terminal capitalization rate of 8.5%. This terminal capitalization rate is in line with the industry surveys where such indications generally range between 7.5% and 13.5%. This terminal capitalization rate is considered appropriate considering the proposed subject's excellent location in Menlo Park, excellent access and visibility from U.S. Highway 101, Renaissance by Marriott affiliation, new construction, the risk inherent in the revenue streams generated by both the hotel and the health club, and the cost savings generated by the integrated development. It is also important to note that there is some risk inherent in this type of development due to the limited alternative utility of the building if the operation were to fail.

The following chart summarizes the investment parameters that were used in the valuation:

Table 2-26 Income Approach Parameters

Stabilized Year:	5	
Inflation:	3.0	%
Loan to Value:	70	%
Amortization:	25	Years
Term:	10	Years
Interest Rate:	8.50	%
Terminal Cap Rate:	8.5	%
Transaction Costs:	3.0	%
Equity Yield:	18.0	%
Mortgage Constant:	0.096627	
Income Value:	$106,500,000	
Total Property Yield:	12.48%	
Interest:	Monthly	

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Using the Simultaneous Valuation Formula,[7] a 10-year mortgage-equity discounted cash flow analysis, with the input described above, the "prospective" market value indication, upon completion of the proposed improvements, from the income capitalization approach, before the addition of pre-opening sales revenues, equates to $106,500,000. This value implies a discount rate of 12.5%, which is within the range indicated by investor surveys.

Pre-Opening Sale Revenue Addition

Using the variables summarized above, we estimate the "prospective" market value of the subject property upon completion via the income capitalization approach to be roundly $106,500,000, prior to the addition of pre-opening revenues from the sale of health club memberships. As previously discussed, the pre-opening sales revenue is considered to accrue to the assumed buyer of the subject property upon completion. Since the memberships sold represent a service that will not be delivered until the proposed subject club opens, we have assumed that if the ultimate owner of the project is different from the developer, pre-opening sales revenues will be held in escrow and added to the value of the property. The calculation of the subject property's total "prospective" market value, upon completion of the improvements, is shown in the following table:

Table 2-27 Calculation of "Prospective" Market Value

"As Improved" Income Value	$106,500,000
Add: Pre-Sale Revenue	910,517
"Prospective" Income Value	$107,410,517
(SAY)	**$107,400,000**

Mathematical Proof of Value

The value is mathematically proven by calculating the yields to the mortgage and equity components during the projection period. If the mortgagee achieves an 8.50% yield and the equity yield is 18%, then $106,500,000 is the correct rounded value by the income capitalization approach. Using the assumed financial structure set forth in the previous calculations, market value can be allocated between the debt and equity as follows.

[7] Suzanne R. Mellen. "Simultaneous Valuation: A New Technique," *Appraisal Journal*, April, 1983.

Mortgage Component (70%)	$74,560,000
Equity Component (30%)	31,954,000
Total	$106,514,000

The annual debt service is calculated by multiplying the mortgage component by the mortgage constant.

Mortgage Component	$74,560,000
Mortgage Constant	0.096627
Annual Debt Service	$7,204,528

The debt coverage ratio and cash-on-cash return calculated in the third projection year are both considered acceptable and attractive returns in the current market. The net proceeds to equity upon sale of the property were determined by deducting sales expenses (brokerage and legal fees) and the outstanding mortgage balance.

The equity residual at the end of the 10th year was calculated by deducting brokerage and legal fees and the mortgage balance from the reversionary value. The reversionary value was calculated as the 11th year's net income capitalized by the terminal capitalization rate. The terminal capitalization rate has been loaded with the applied property tax rate of 1.1132% and applied to the 11th year net operating income before taxes to reflect the step-up in property taxes upon sale due to California's Proposition 13. The calculation is shown as follows.

Reversionary Value	($ 15,406,000/0.096)	$160,258,000
Less:		
Brokerage and Legal Fees		4,808,000
Mortgage Balance		60,968,000
Net Sale Proceeds to Equity		$94,482,000

The discount rate (before debt service), the yield to the lender, and the yield to the equity position were calculated by computer with the following results.

Table 2-28 Internal Rates of Return

Position	Value	Projected Yield (Internal Rate of Return) Over 10-Year Holding Period
Total Property	$106,514,000	12.5 %
Mortgage	$74,560,000	8.4
Equity	$31,954,000	18.0

Note: Whereas the mortgage constant and value are calculated on the basis of monthly mortgage payments, the mortgage yield in this proof assumes single annual payments. As a result, the proof's derived yield may be slightly less than that actually input.

The following tables demonstrate that the property receives its anticipated yields, proving that the value is correct based on the assumptions used in this approach.

Table 2-29 Free and Clear Discount Rate—Discounted Cash Flow Analysis

Year	Net Income Available for Debt Service		Present Worth of $1 Factor at 12.5%		Discounted Cash Flow
2014	$6,211,264	x	0.889040	=	$5,522,000
2015	9,147,000	x	0.790391	=	7,230,000
2016	10,462,000	x	0.702689	=	7,352,000
2017	11,150,000	x	0.624718	=	6,966,000
2018	11,618,000	x	0.555399	=	6,453,000
2019	11,980,000	x	0.493772	=	5,915,000
2020	12,352,000	x	0.438983	=	5,422,000
2021	12,735,000	x	0.390273	=	4,970,000
2022	13,132,000	x	0.346968	=	4,556,000
2023	168,991,000 *	x	0.308468	=	52,128,000
			Total Property Value		$106,514,000

*10th year net income of $13,540,000 plus sales proceeds of $155,451,000

Table 2-30 Mortgage Component Yield

Year	Total Annual Debt Service		Present Worth of $1 Factor at 8.4%		Discounted Cash Flow
2014	$7,205,000	x	0.922250	=	$6,645,000
2015	7,205,000	x	0.850545	=	6,128,000
2016	7,205,000	x	0.784414	=	5,652,000
2017	7,205,000	x	0.723426	=	5,212,000
2018	7,205,000	x	0.667179	=	4,807,000
2019	7,205,000	x	0.615306	=	4,433,000
2020	7,205,000	x	0.567466	=	4,089,000
2021	7,205,000	x	0.523345	=	3,771,000
2022	7,205,000	x	0.482655	=	3,478,000
2023	68,173,000 *	x	0.445128	=	30,346,000
			Value of Mortgage Component		$74,561,000

*10th year debt service of $7,205,000 plus outstanding mortgage balance of $60,968,000

Table 2-31 Equity Component Yield

Year	Net Income to Equity		Present Worth of $1 Factor at 18.0%		Discounted Cash Flow
2014	-$993,736	x	0.847460	=	-$842,000
2015	1,942,000	x	0.718189	=	1,395,000
2016	3,257,000	x	0.608637	=	1,982,000
2017	3,945,000	x	0.515796	=	2,035,000
2018	4,413,000	x	0.437116	=	1,929,000
2019	4,775,000	x	0.370439	=	1,769,000
2020	5,147,000	x	0.313932	=	1,616,000
2021	5,530,000	x	0.266045	=	1,471,000
2022	5,927,000	x	0.225463	=	1,336,000
2023	100,818,000 *	x	0.191071	=	19,263,000
			Value of Equity Component		$31,954,000

*10th year net income to equity of $6,335,000 plus sales proceeds of $94,483,000

Discount Rate

Among the sales data and sets of surveys, discount rates ranged from 8.1% to 18.0%, with survey averages between 11.4% and 11.9%. The assumed debt and equity rates of return resulted in a free-and-clear discount rate of 12.5% for the subject property. This is an appropriate discount rate for the subject, considering the proposed property's location in a market with high barriers to entry, the property's new construction, the upscale market orientation of the facility, and the risk inherent in the revenue streams of the hotel and health club.

Overall Capitalization Rates

The following chart shows how overall capitalization rates for the subject property were derived based on our opinion of market value, prior to the addition of pre-opening sale revenues, via the income capitalization approach, $106,500,000. Note that the stabilized year's net income was deflated to first-year dollars.

Table 2-32 Overall Capitalization Rates

Year	Net Operating Income	Overall Capitalization Rate
Forecast 2014	$6,211,000	5.8 %
Deflated Stabilized (2014) Dollars	10,322,000	9.7

The overall capitalization rates are considered to be appropriate for a lodging facility such as the Proposed Renaissance ClubSport. Overall rate averages for the sales data and surveys previously presented range from roughly 7.0% to 13.4% on a stabilized basis. The derived capitalization rates based on the stabilized forecasted net operating income are in line with acceptable returns for a development of this caliber. This is considered an appropriate capitalization rate for the subject, considering the proposed property's location in a market with high barriers to entry, the property's new construction, the upscale market orientation of the facility, the risk inherent in the revenue streams of the hotel and health club, and the positive performance of the first Renaissance ClubSport facility in Walnut Creek.

CONCLUSION

Based on our own market research and review of the projections and other materials provided by Marriott and Leisure Sports, it is our opinion that the proposed Renaissance ClubSport can be expected to be a very successful product if the proposed development is constructed as planned. The club will be able to draw from an affluent residential base, a significant pool of commuters, as well as an adjacent office population. The hotel will be the only full-service Marriott product in the Palo Alto/Menlo Park market area, and will be offering an enhanced product with its club component. Both the hotel and club, while situated in a traditionally strong market, will be highly dependent upon demand generated by the proposed project's roundly 750,000 square feet of office space—without this inventory the property would be relatively isolated and would not have an immediate population from which to generate demand.

Based on our market and financial analysis, it is our opinion that the "prospective" market value of the fee simple interest in the 230-unit upscale hotel and ±66,191-square-foot health club as described in this report, as of January 1, 2014, when the improvements are expected to be complete and operational, including the pre-opening membership sales, will be $107,400,000. This value estimate upon completion equates to $466,957 per room, or $583.27 per square foot. The estimate of market value includes the land, the improvements, and the furniture, fixtures, and equipment.

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Land Residual Analysis

A value attributable to the land designated for the development of the proposed hotel and health club improvements was derived based on a residual land analysis. The cost of construction was deducted from the "as complete" value conclusion based on the projected cash flow of the Renaissance ClubSport. The following table illustrates our calculation of net residual value attributed to the land.

Land Residual Analysis

		Best Case	Worst Case (1)
Estimated Value of Renaissance ClubSport as of Date of Opening - January 1, 2014		$107,400,000	$93,100,000
Less:			
Pre-development costs	4,000,000		
Development Cost at $359.46 x 248,672 square feet (2)	89,138,965		
Developer's Fee	3,000,000		
Total		96,100,000	96,100,000
Residual Value to the Land as of January 1, 2014		$11,300,000	$0
Land Value discounted back to January 1, 2010 @ 5% per year		9,300,000	0

(1) Worst case scenario assumes $10 lower ADR, 2 point lower occupancy, $10 less membership dues per month and $90 lower initiation fee

(2) Construction costs are taken from the developer's proforma and includes 50% of Garage C

Our land residual analysis indicates that after deducting development costs and a typical developer's fee to cover overhead during the development process that there is $11,300,000 in residual value to the land for the proposed Renaissance ClubSport project under the Best Case scenario and no residual value to the land under the Worst Case scenario. Note that no developers' profit has been deducted in our analysis, indicating that there is insufficient value to generate a reasonable residual value to the land AND a developer's profit. Developers' typically require a financial incentive to take on the significant risk of undertaking a development, particularly one of this magnitude. This analysis highlights the challenge of developing and financing full service hotels and athletic clubs.

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3. Statement of Assumptions and Limiting Conditions

1. This report is to be used in whole and not in part.
2. No responsibility is assumed for matters of a legal nature, nor do we render any opinion as to title, which is assumed to be marketable and free of any deed restrictions and easements. The property is valued as though free and clear unless otherwise stated.
3. We assume that there are no hidden or unapparent conditions of the sub-soil or structures, such as underground storage tanks, that would render the property more or less valuable. No responsibility is assumed for these conditions or for any engineering that may be required to discover them.
4. We have not considered the presence of potentially hazardous materials such as asbestos, urea formaldehyde foam insulation, any form of toxic waste, polychlorinated biphenyls (PCB), pesticides, toxic mold, or lead-based paints. The consultants are not qualified to detect hazardous substances, and we urge the client to retain an expert in this field if desired.
5. We have made no survey of the property, 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 land and improvements is within the boundaries of the property described, and that there is no encroachment or trespass unless noted.
6. All information, financial operating statements, estimates, and opinions obtained from parties not employed by HVS Consulting and Valuation are assumed to be true and correct. We can assume no liability resulting from misinformation.
7. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.

8. 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.
9. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
10. 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.
11. 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.
12. 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.
13. We take no responsibility for any events or circumstances that take place subsequent to either the date of the market study or the date of our field inspection, whichever occurs first.
14. The quality of a lodging facility's on-site management has a direct effect on a property's economic viability and value. 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 and the value estimate.
15. The estimated operating results presented in this report are based on an evaluation of the overall economy, and neither take into account nor make provision for the effect of any sharp rise or decline in local or national economic conditions. To the extent that wages and other operating expenses may advance during the economic life of the property, we expect that the prices of rooms, food, beverages, and services will be adjusted to at least offset those advances. We do not warrant that the estimates will be attained, but they have been prepared on the basis of information obtained during the course of this study and are intended to reflect the expectations of a typical hotel buyer.

16. 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.
17. 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.
18. 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.
19. Although this analysis employs various mathematical calculations to provide value indications, the final estimate is subjective and may be influenced by our experience and other factors not specifically set forth in this report.
20. Any distribution of the total value between the land and improvements or between partial ownership interests applies only under the stated use. Moreover, separate allocations between components are not valid if this report is used in conjunction with any other analysis.
21. This study was prepared by HVS Consulting and Valuation, a division of M&R Valuation Services, Inc. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of M&R Valuation Services, Inc. as employees, rather than as individuals.
22. This analysis assumes that the development and planning of the subject property prior to opening have been competently managed. Among the items assumed to occur are the employment of management and executive positions, the hiring and training of hotel staff, the establishment and implementation of operating policies and procedures, and the production and execution of a sales and marketing plan. The projections in this analysis are dependent upon a typical preopening process. Any variance from industry preopening planning and process for a hotel of this nature may materially affect the values set forth in this report.

23. For purposes of this market study, we have assumed an opening date of January 1, 2014. The adjacent office and parking developments are also expected to be completed by January 2014.
24. For purposes of this analysis, it has been assumed that the proposed subject property will have access and use of an adequate number of the 1,230 parking spaces in a five-story parking garage structure located adjacent to the western portion of the subject site, which will be shared with the office building.
25. It is assumed that the health club will be aggressively marketed before its opening in January 2014.

4. Certification

We, the undersigned, hereby certify:

1. that the statements of fact presented in this report are true and correct to the best of our knowledge and belief;
2. that the reported analyses, opinions, and conclusions presented in this report are limited only by the assumptions and limiting conditions set forth, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. that Jaime Law and Suzanne R. Mellen, CRE, MAI, FRICS, ISHC personally inspected the property described in this report;
4. that Jaime Law provided significant real property assistance to Suzanne R. Mellen, CRE, MAI, FRICS, ISHC and that no one other than those listed above and the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this report;
5. that the appraisers have extensive experience in the valuation of hotels and believe that they are competent to undertake this market study report, financial projections, and valuation;
6. that we have no current or contemplated interests in the real estate that is the subject of this report;
7. that we have no personal interest or bias with respect to the subject matter of this report or the parties involved;
8. that this report sets forth all of the limiting conditions (imposed by the terms of this assignment) affecting the analyses, opinions, and conclusions presented herein;
9. that the fee paid for the preparation of this report is not contingent upon our conclusions, or the occurrence of a subsequent event directly related to the intended use of this appraisal;

10. that this report has been prepared in accordance with, and is subject to, the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute;
11. that the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives;
12. that the reported analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which includes the Uniform Standards of Professional Appraisal Practice;
13. that as of the date of this report, Suzanne R. Mellen, CRE, MAI, FRICS, ISHC has completed the requirements of the continuing education program of the Appraisal Institute;
14. that our engagement in this assignment was not contingent upon developing or reporting predetermined results; and,
15. that this market study, financial projection, and valuation is not based on a requested minimum value, a specific value, or the approval of a loan.

Jaime Law
Assistant Vice President

Suzanne R. Mellen, CRE, MAI, FRICS, ISHC
Managing Director
M&R Valuation Services, Inc.

JL/SRM/leg