Working Draft

FISCAL IMPACT ANALYSIS:

BOHANNON MIXED USE PROJECT FOR INDEPENDENCE DRIVE AND CONSTITUTION DRIVE SITES MENLO PARK, CALIFORNIA

Prepared for
The David Bohannon Organization

Prepared by
Brion & Associates

June 2007

2641 Barndance Lane • Santa Rosa, CA 95407 • tel/fax 707.570.1477 • joanne@brionassociates.com

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1. INTRODUCTION

This study presents a fiscal impact analysis of a proposed mixed use – office and hotel – development for two proximate sites owned by the David Bohannon Organization in the M-2 District (east of Highway 101) in the City. Two additional development alternatives for this project (with properties both on Independence Drive and Constitution Drive) are also presented, including existing conditions and existing zoning. For ease of identification, the three analyzed alternatives are labeled as follows:

1. *Existing Development*: no change to current office/R&D space buildings, assuming current vacancies;

2. *Existing Zoning Alternative*: new office and parking under existing zoning;[1] and

3. *2007 Proposed Mixed Use Project*: new office, new hotel, restaurant/café, fitness club/spa, and parking, assuming new zoning.[1,2]

A primary objective of this analysis is to determine the extent to which each development alternative provides fiscal value to the City (City) in terms of net new revenues after consideration of new city service costs. City revenues impacted by the proposed development alternatives are:

- property tax,
- sales tax,
- transient occupancy tax,
- business licenses, and
- other per-capita revenues, such as
  - franchise fees,
  - other permits, and
  - fines.

City costs are analyzed for the following General Fund departments:

- Police,
- Public Works,
- Community Services,
- Administration Services,
- Community Development, and
- Library.

[1] Assumes a 10% vacancy rate for estimating employees associated with the Existing Zoning and Proposed Project Alternatives.
[2] Also referred to as the "proposed project" in the report.

This analysis is based on the City's Adopted 2006-2007 Annual Budget and current demographics for the City as of 2007. Other time sensitive data is also as of Fiscal Year 06-07 for consistency purposes. Data on the existing development of the site are as of November 2006, or the approximate mid-point of the fiscal year.

The Bohannon Organization retained Brion & Associates to prepare this study to provide the City with a basis for considering the fiscal impacts of the project. Brion & Associates has worked closely with the Bohannon development team[3] and City Staff to prepare this analysis.

Brion & Associates worked with City Staff to review and discuss the assumptions and approach and methodology for this fiscal impact analysis during 2004. Most recently, Staff provided various data for this analysis and reviewed the report , offering detailed comments and edits. As a result of the 2004 review, **Table A-12** in **Appendix A,** which documents the source of each assumption used in this analysis and referenced by table number and subject, was added to the report. In 2004, City Staff from the Planning Department, the Finance Department, and the City Manager's Office participated in the preparation of this report; they indicated that the methodology used in this report seems appropriate and the assumptions appear reasonable for purposes of this study. Since 2004, Brion & Associates has continued to work with City Staff and the Bohannon development team to update and revise the assumptions and methodology used in this report. In 2005, the City hired Conley Consulting Group[4] to conduct a peer review of the 2005 fiscal impact study. This new report incorporates comments and suggested changes based on that review. The Bohannon Organization also hired PKF Consulting Group to conduct an independent hotel market study of the proposed project. The PKF Study is included in **Appendix B** of this report. The PKF hotel market study provides the basis of hotel assumptions used in this analysis and confirms that Marriott's estimates of revenue and rates are appropriate and reasonable. **Appendix C** includes a Fitness Club Market Analysis (prepared by Brion & Associates) which evaluates the market demand for a new fitness center and spa in Menlo Park.

Summary of Findings

The following section provides a discussion of the fiscal balance for each of the development alternatives: *Existing Development*, *Existing Zoning Alternative*, and *2007 Proposed Mixed Use Project*. **Table S-1** provides a summary of fiscal results for the three development alternatives, while **Table S-2** provides a summary of fiscal benefits by alternative both annually and over twenty years. More detailed results of the fiscal analysis are shown in **Table 7** in **Chapter 3** of this report. **Figures S-1** to **S-3** present a graphic summary of the fiscal results.

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[3] The Team includes Community Design + Architecture, Environ Trans Solutions, Inc., Luce, Forward, Hamilton & Scripps LLP, Barbary Coast Consulting, DES Architects + Engineers, and Dahlin Group.
[4] See "Peer Review" of Bohannon Development Fiscal Impact Analysis, prepared by Conley Consulting Group for City of Menlo Park, dated April 5, 2006.

1. *The 2007 Proposed Mixed Use Project would generate about $1.6 million per year in net new revenues when the project is completed.*

This fiscal analysis estimates the net new revenues for each alternative, which represent total city revenues minus expenditures.[5] With Floor Area Ratios (FARs) of more than 1.0 for combined uses in the project, the *2007 Proposed Mixed Use Project* has the highest density and also the highest revenues, by far, of the three alternatives analyzed. This alternative has about 382,000 more square feet of office use than the *Existing Zoning Alternative* (i.e., existing zoning) and a 206-room hotel with related uses, including a restaurant and a fitness club/spa. This analysis assumes a vacancy rate of 10% for the office space, which results in a total of about 625,000 occupied square feet of office space. The hotel is assumed to have an occupancy rate of 75%, as of 2012, and an average room rate of $239 per occupied room night.[6]

These new uses would generate a total of $2.1 million in yearly revenues for the City's General Fund. With annual General Fund expenditures around $461,000, the overall benefit to the General Fund is $1.6 million. The greatest component of this increased revenue would come from the hotel, through Transient Occupancy Tax (TOT) revenues, which is not included in either the *Existing Development* or *Existing Zoning Alternatives*. About $1.4 million of TOT from the hotel is expected from this alternative. TOT revenues present about 67% of the total revenues of the proposed project. The *2007 Proposed Mixed Use Project* would generate a roughly 1,831% increase in revenues to the City's General Fund from these two sites over *Existing Development*.

2. *The Existing Development Alternative currently breaks even with a modest surplus of about $4,000 in net revenues.*

The FAR of *Existing Development* is 0.31 on average at the two sites and assumes a vacancy rate of 26% as of November 2006. The property is currently developed with about 131,000 square feet of office space and about 87,700 square feet of R&D uses and is about 74% occupied or 162,900 square feet of total occupied space. General Fund revenues from these uses total about $106,600, mostly from sales tax, property tax, and business license fees. Expenditures associated with existing uses total about $102,300. This $4,300 difference between revenues and expenditures represents a very modest surplus. In general, this alternative can be characterized as "fiscally neutral." The site also generates about $5,800 in additional park related property taxes for the *Existing Development Alternative*.

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[5] The figures reported here are not net of existing net revenues from existing development, which are minimal, as discussed below.
[6] These rates assume stabilized operations in year 4 for the hotel; the hotel is assumed to open 2009 as forecast by PKF Consulting.

3. The Existing Zoning Alternative would generate about $32,700 per year in net General Fund revenues or about $28,400 over Existing Development.

The FAR of *Existing Zoning Alternative* development is 0.45 at both sites, based on existing zoning allowed at the sites, and assumes a 10% vacancy rate. This alternative would allow for about 313,000 square feet of office use, of which about 281,400 square feet are assumed to be occupied for analysis purposes, assuming 10% vacancy. Overall, the *Existing Zoning Alternative* would generate approximately $32,700 annually in net revenue benefit to the City.

4. The greatest fiscal benefit of net new revenues to the City would come from the 2007 Proposed Mixed Use Project.

The *2007 Proposed Mixed Use Project* represents a higher density development, and the fiscal benefits to the City would be substantial. With more office space, a hotel, and retail uses, the positive effect upon the City's General Fund is significantly stronger than either the *Existing Development* or *Existing Zoning Alternatives*. The *2007 Proposed Mixed Use Project* generates $1.95 million more annually in General Fund revenues than *Existing Development* and $1.84 million more annually than *Existing Zoning*.

5. The Proposed Project would generate about 2,300 jobs and almost 1,800 net new jobs over Existing Development.

The *2007 Proposed Mixed Use Project* would generate a substantial economic benefit for the City in terms of new jobs. The proposed project would generate about 2,100 office related jobs assuming a 10% vacancy rate, and approximately 200 hospitality, health, and community service related jobs. Many of the hotel and retail related jobs would be entry-level and semi-skilled jobs that would benefit the local community.

6. The 2007 Proposed Mixed Use Alternative will generate about 1,800 construction jobs, compared to the Existing Zoning Alternative's yield of less than 500 jobs.

Construction benefits are expressed as "job years," and given the significant increase in development under the *2007 Proposed Mixed Use Project*, the construction benefits would be more than triple those of the *Existing Zoning Alternative* (see **Table S-1**). *Existing Development* would not generate any new construction jobs years except through minor renovations or tenant improvements, which are not expected to be significant.

7. ***The 2007 Proposed Mixed Use Project would generate approximately $9.4 million in combined water, sewer, school, traffic, and below market rate housing impact fees for the City.***

Alternatively, the *Existing Zoning Alternative* would generate less than 15% of that amount or approximately $1.4 million in impact fees (see **Table S-1**). All net new development in the City is assessed impact fees for schools, traffic mitigation, and the below market rate housing program, in addition to standard fees for sewer, water, and fire. Given the significant amount of net new development associated with the *2007 Proposed Mixed Use Project*, it would generate a significantly higher dollar value in impact fee revenues for the City. This represents a one-time benefit of the project while the other fiscal benefits discussed above are on-going, annual benefits. The City's traffic impact fee is expected to increase substantially in the next year, and the amount estimated above is based on current rates; thus, the total impact fee revenue will be substantially higher. As discussed further below (see bullet 11), not all of the school impact fees will benefit the local Belle Haven school district, or Ravenswood Elementary School District. The Bohannon site is within the Redwood City Elementary School District. School impact fees to the local high school district, Sequoia, would benefit the Belle Haven neighborhood and would total $94,000.

8. ***The City would also receive revenue for Parks and Recreation from the new development alternatives. This figure is currently estimated to be about $6,000 for Existing Development and could increase to $56,000 per year, for the Proposed Mixed Use Project, as shown in Table S-2.***

The City receives additional property tax revenues for parks and recreations through additional assessments levied on real property, including a voter-passed bond. These revenues are in addition to those estimated for the General Fund. These revenues provide additional benefit to an important city service and community amenities. While the *Existing Development* scenario and the *Existing Zoning Alternative* generate about $6,000 and $15,000, respectively, the *2007 Proposed Mixed Use Alternative* generates approximately $56,000, significantly higher than either of the other alternatives.

9. ***Over a twenty-year period, the 2007 Proposed Mixed Use Project is projected to generate significantly higher revenues for the City than either of the two other alternatives, totaling over $33 million.***

Over twenty years, the City will receive approximately $33.1 million in total net new revenues from the *2007 Proposed Mixed Use Project.* In comparison, the *Existing Development Alternative* generates about $200,000 over twenty years, and the *Existing Zoning Alternative* would generate approximately $960,000 over the same period. With the *2007 Proposed Mixed Use Project*, the total net new revenues over those of existing development would equal about $32.9 million.

10. The 2007 Proposed Mixed Use Project will generate greater individual benefits for the General Fund, such as property tax revenue, transient occupancy tax (TOT), and sales tax.

When revenues are considered on an individual basis, the *2007 Proposed Mixed Use Project* still performs significantly better, as shown in **Table S-2**. The *2007 Proposed Mixed Use Project* is projected to generate $61.3 million in property tax revenue for all taxing agencies over the next twenty years, compared to $6.3 million for the *Existing Development* and $16.3 million for the *Existing Zoning Alternative*. Additionally, the *2007 Proposed Mixed Use Project* will generate $27.4 million in TOT revenue over twenty years, as compared to zero TOT revenue from either of the other alternatives. Sales tax revenues are also higher for the *2007 Proposed Mixed Use Project*, at approximately $2.9 million over twenty years.

11. The distribution of the 1% property tax generated by the Bohannon properties benefits the County of San Mateo, City of Menlo Park, local school districts, and other agencies.

The property tax revenues generated by the Bohannon site are currently estimated at $35,900 for *Existing Development*, $93,300 for the *Existing Zoning Alternative*, and $350,400 for the *2007 Proposed Mixed Use Project*. The County of San Mateo receives the greatest portion of the 1% property tax at 22.6%. The Redwood City Elementary School District receives almost the same rate (22.5%), followed by the Fire District at 15.0% and the Sequoia High School District at 14.9%. While property taxes from the Bohannon site fund the Redwood City Elementary School District, the residents of the Belle Haven neighborhood, which is adjacent to the Bohannon site, is within the Ravenswood Elementary School District and will not benefit from the elementary school district revenues generated by the site. The neighborhood will benefit, however, from the property tax which goes to the Sequoia High School District, which its residents do attend.

Table S-1
Summary of Project Assumptions by Alternative

Item	Existing Development	Existing Zoning	2007 Proposed Mixed Use Project
Office	131,053 sqft	312,627 sqft	694,726 sqft
R&D	87,678 sqft	--	--
Hotel Rooms	--	--	206 rooms
Restaurant/Café	--	--	3,556 sqft
Fitness Club/Spa	--	--	69,160 sqft
Retail/Community Space			10,000 sqft
Structured Parking	--	--	2,266 spaces
Surface Parking	792 spaces	1,042 spaces	400 spaces

Table S-2
Summary of Fiscal Analysis and Other Benefits by Alternative
Bohannon Fiscal Impact Analysis - 2007

Scenario and Item		Summary of Fiscal Balance by Alternative: Existing Development	Existing Zoning	2007 Proposed Mixed Use Project	Proposed Project Increases over Existing Dev't
Annual Benefit					
Total Gen Fund Revenues		$106,600	$221,700	$2,058,200	$1,951,600
% over Existing Development			108%	1831%	
Total Gen Fund Expenditures		$102,300	$188,900	$460,600	$358,300
% over Existing Development			85%	350%	
Net GF Fiscal Benefit/(Shortfall)		**$4,300**	**$32,700**	**$1,597,600**	**$1,593,300**
% over Existing Development			660%	37053%	
Benefit over Existing Development			$28,400	$1,593,300	
Other City Annual Revenue	(1)	**$5,800**	**$15,000**	**$56,400**	**$50,600**
One-Time Benefits					
Permanent Jobs		508	938	2,286	1,778
Benefit over Existing Development			430	1,778	
% over Existing Development			85%	350%	
Construction Jobs Years	(2)	-	466	1,813	1,813
Property Transfer Tax Revenues	(3)	-	**$8,300**	**$8,300**	**$8,300**
Impact Fees		-	**$1,353,500**	**$9,384,000**	**$9,384,000**
Total One-Time Revenues		-	**$1,361,800**	**$9,392,300**	**$9,392,300**

(1) Includes property tax revenue used for park bond financing and other park related services.
(2) Job years represents one year of local construction employment.
(3) This revenue is generated from Independence site only due to assumed restructuring of ownership.

Source: City of Menlo Park; Brion & Associates.

Table S-3
Summary of Economic Benefits from Proposed Project by Alternative
Annual and 20-Year Benefits (1)
Bohannon Fiscal Impact Analysis - 2007

	Annual Benefits			20-Year Totals in Constant Current Dollars (1)		
Benefits	**Existing Development**	**Existing Zoning**	**2007 Proposed Mixed Use Project**	**Existing Development**	**Existing Zoning**	**2007 Proposed Mixed Use Project**
			all figures are rounded to nearest thousand			
Total Benefits						
General Fund Net Benefit	$4,000	$33,000	$1,598,000	$80,000	$660,000	$31,960,000
Other Menlo Park Property Tax Rev.	$6,000	$15,000	$56,000	$120,000	$300,000	$1,120,000
Overall Net Revenue Benefit	**$10,000**	**$48,000**	**$1,654,000**	**$200,000**	**$960,000**	**$33,080,000**
Individual Benefits (2)						
Property Tax Revenue						
City of Menlo Park - GF	$36,000	$93,000	$350,000	$720,000	$1,860,000	$7,000,000
Redwood City Elementary School District	$71,000	$183,000	$689,000	$1,420,000	$3,660,000	$13,780,000
Sequoia High School	$47,000	$121,000	$456,000	$940,000	$2,420,000	$9,120,000
Menlo Park Fire District	$47,000	$122,000	$459,000	$940,000	$2,440,000	$9,180,000
County of San Mateo	$71,000	$184,000	$691,000	$1,420,000	$3,680,000	$13,820,000
Other Agencies	$42,000	$112,000	$418,000	$840,000	$2,240,000	$8,360,000
Total Property Tax Revenue	$314,000	$815,000	$3,063,000	$6,280,000	$16,300,000	$61,260,000
Transient Occupancy Tax Revenue	$0	$0	$1,370,000	$0	$0	$27,400,000
Sales Tax Revenue	$30,000	$49,000	$145,000	$600,000	$980,000	$2,900,000

(1) 20 year estimates are derived from annual figures multiplied by 20 and in constant dollars. No inflation or changes in real assessed value are assumed. Actual 20 year totals for property tax would be higher with increases in assessed value. Other revenues may increase too such as room rates and taxable sales rates.
(2) These revenues are subsumed in the estimate of Net General Fund fiscal benefit above and are broken out separately to highlight key revenues from the project.

Source: Brion & Associates.

Figure S-1: Fiscal Balance: Existing Development & Proposed Project

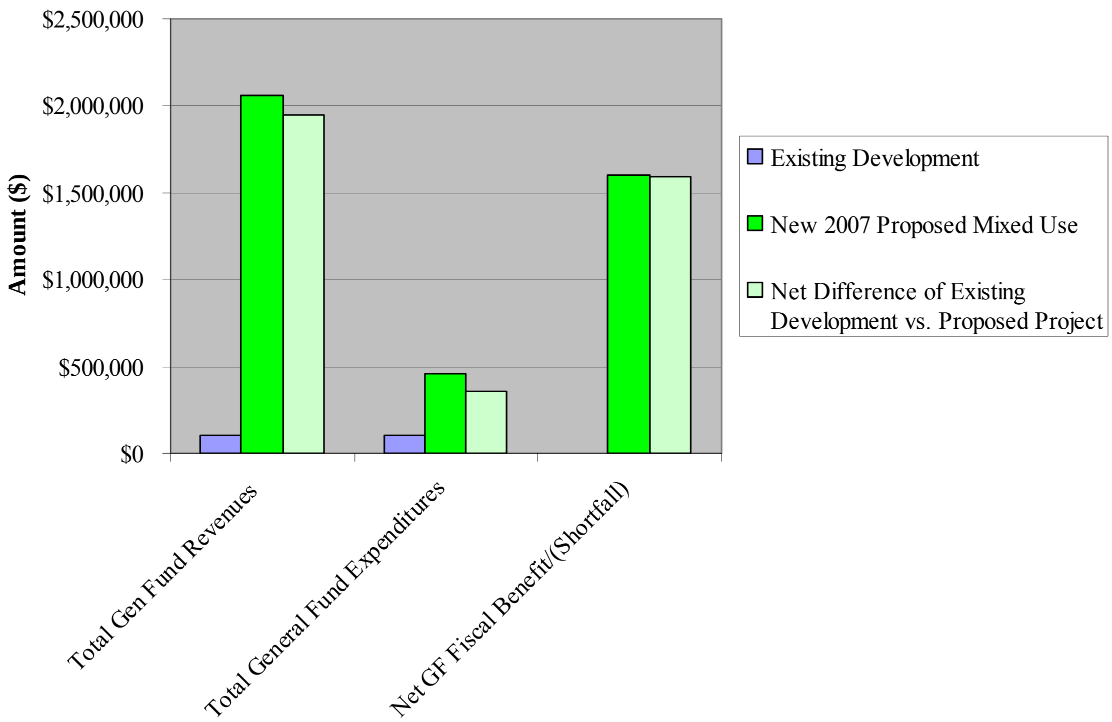


Figure S-2: Estimated Net New General Fund Revenues-
Bohannon 2007 Proposed Project Minus Existing Development

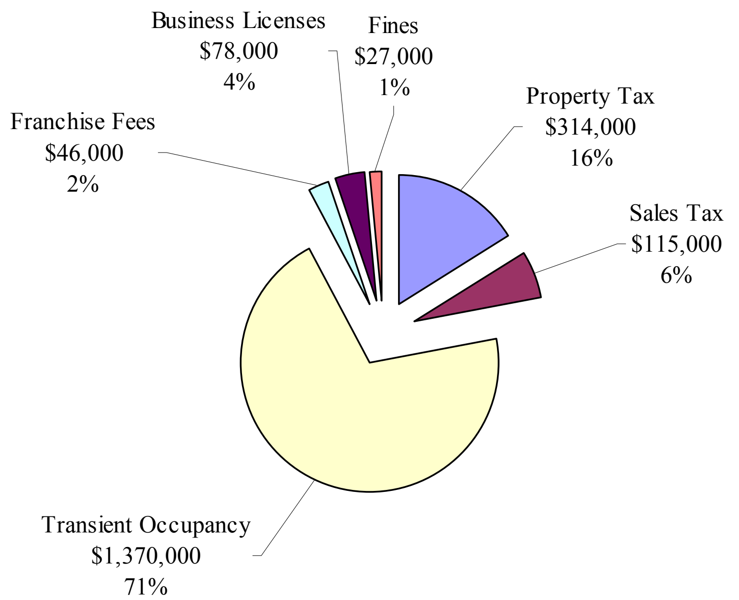
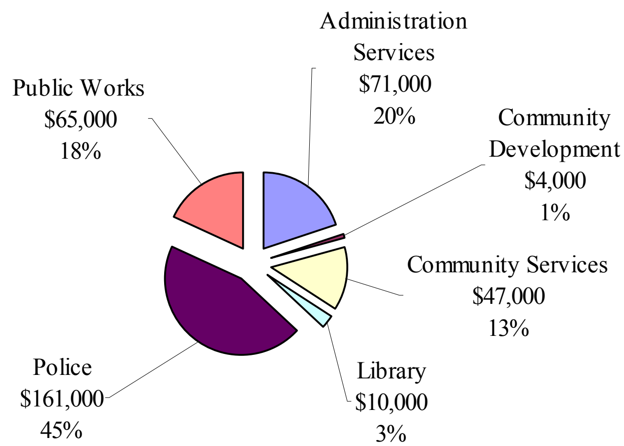


Figure S-3: Estimated Net New General Fund Expenditures-
Bohannon 2007 Proposed Project Minus Existing Development



Background

In recent years, the City has considered many possible land use changes to the M-2 District, the area within which the project sites are located, but no formal policy has been developed to date. For a number of years, the office market was soft, and new office development was not occurring on the Peninsula. Today, the office market is recovering from the dot.com crash of 2000, and the hotel market shows very strong demand, according to a market study prepared for the project by PKF Consulting. The current proposed project is similar to the one proposed by Bohannon in 2005, with the addition of a defined hotel operator for the site, Renaissance ClubSport, and the project includes more office space.

The *2007 Proposed Mixed Use Project* varies from current M-2 General Industrial District zoning in terms of proposed uses, FAR, and building height. These issues will be addressed by adopting new zoning and General Plan amendments for the two sites referred to in this study. The other two alternatives present existing development and existing zoning. The developer has no intention of constructing the existing zoning alternative; rather, it is provided to illustrate that the benefits of the existing zoning would not vary significantly from the existing development on the site. This analysis confirms this point.

The purposes of this analysis are to provide a tool for measuring the fiscal implications of different development alternatives for the project site and to address the net fiscal benefit the City will receive under each. In the case of the *2007 Proposed Mixed Use Project*, the City's net fiscal benefit can be seen as one important consideration for the requested mixed use zoning and higher density development. In general, the City's key net benefit derived from the proposed project is the transient occupancy tax (TOT) revenues from a 206-room hotel-fitness club/spa.

Purpose of Fiscal Impact Analyses

A fiscal impact analysis evaluates the fiscal implications of new development on the City's operating budget or its annual revenues and expenditures. Fiscal analyses generally focus on the General Fund, which is the main city fund impacted by new development. Other city funds typically have dedicated revenues, such as user fees, to cover the fund's costs; these revenues can be increased to cover increased costs. The General Fund is the source for all "discretionary" revenues, i.e., revenues that can be spent at the City Council's discretion. These "discretionary" revenues include property tax, sales tax, transient occupancy tax, etc. Dedicated revenues include revenues that must be spent on a particular expenditure or within a particular department. Examples of such revenues include grants or some State and Federal monies, such as gas tax revenues. Typically, fiscal impact analyses neither forecast these dedicated revenues nor assume dedicated revenues could fund general project-related costs.

Fiscal impact analyses evaluate the "proposed" development in terms of today's fiscal environment by using a city's current budget. By law, a city must balance its budget from year to year; thus, exact expenditures and revenues are somewhat dynamic, but certain trends are always present. The analyses provide estimates of how the new development will perform fiscally, assuming the current cost and revenue structure, including current tax-sharing agreements and local rates for items such as transient occupancy tax, etc. The focus of the analyses is to determine whether the new development will pay for itself and whether it will generate net new revenues for the city that can be used to fund services and projects elsewhere in the city. In the case of this study, an analysis of the existing development is provided, and it is contrasted with the new *2007 Proposed Mixed Use Project* and an *Existing Zoning Alternative.* This is so that the City and community can evaluate the net new benefits of allowing a mixed use project in the M-2 District and increased development capacity on the site.

Fiscal impact analyses are different than detailed budget forecasts at the departmental level, such as those with detailed staffing plans. Fiscal impact analyses use current demographic data and service standards for a city, as well as the city's current service levels/costs, and apply them to the new population and employment generated by the project. In this study, the project would generate employment only and no direct population. Thus, for this study, the costs of serving employment-related land uses are analyzed. These types of studies are very useful in evaluating multiple alternative land use plans and in conducting sensitivity analyses of key project assumptions.

Brion & Associates has conducted many fiscal impact analyses for new development projects, as well as fiscal impact analyses of general plan updates, throughout Northern California.

Report Organization

This report has four chapters and technical appendices that follow the main body of the report. **Chapter 1** contains an introduction to and a general background of this analysis. **Chapter 2** includes the development assumptions for the project, the demographic information, and the market values used in this analysis. **Chapter 3** presents the general fund revenue, cost assumptions, and approach used in the fiscal analysis. **Chapter 4** covers the findings and conclusions that can be drawn from this analysis. **Appendix A** presents the detailed calculations and supporting data for the fiscal analysis, including documentation of all model assumptions (see **Table A-12**). **Appendix B** contains the PKF Consulting hotel market study and **Appendix C** contains the fitness center market study.

2. DEVELOPMENT AND MARKET ASSUMPTIONS

This study analyzes three alternatives for Bohannon properties in the M-2 District in the City. These alternatives involve the use of two separate sites in close proximity to one another in the eastern area of Menlo Park, referred to and designated as the M-2 District. The Independence Drive site lies adjacent to Bayshore Freeway (US 101), just northeast of the freeway's Marsh Road exit, and encompasses 308,815 square feet of land, or 7.1 acres in total. The Constitution Drive site is about one block to the north, immediately south of the Bayfront Expressway (Hwy 84), and has 385,911 square feet of land, or 8.86 acres in total. The project would encompass about 15.9 acres of land in total. **Figure 1** shows the layouts and general land uses envisioned for the proposed project. **Figures 2** and **3** provide an illustrated perspective of the proposed office buildings on each site. It should be noted that these illustrations are preliminary and conceptual representations of the proposed structures.

The projections for three alternatives in this analysis, including the *2007 Proposed Mixed Use Project*, are based on current conditions and upon key assumptions that are described in detail in **Table A-12**. This analysis looks at the fiscal impact for the two-site project as a whole under these alternatives, each with different components as summarized below:

- *Existing Development*: current uses of office and R&D equal 218,700 total square feet of space in total, at 74% occupancy based on current conditions[7] or about 163,000 of occupied square feet.

- *Existing Zoning Alternative:* about 313,000 square feet of office space and surface parking located on both sites, assuming the maximum allowed under existing zoning, assuming 90% occupancy or 281,400 square feet.

- *2007 Proposed Mixed Use Project:* about 695,000 square feet of office space with 90% occupancy, and 2,266 structured parking spaces, 10,000 square feet of retail/community space, and a new 206-room hotel (assuming 75% occupancy) with a 69,000 square feet fitness club/spa and a 3,600 square feet restaurant on Independence Drive. The hotel, fitness club/spa, and restaurant are an integrated project and not separate buildings.

Current zoning for properties in the M-2 District requires that the floor area ratio (FAR) not exceed 0.55 for general industrial uses (including R&D) and 0.45 for offices. By way of comparison, the *Existing Development* for these sites as a whole has a 0.31 FAR. The *Existing Zoning Alternative* has an FAR of 0.45 for the sites, consistent with existing zoning. The combined FAR of the *2007 Proposed Mixed Use Project* is about 1.3 on Constitution and Independence Drives for all uses (1.0 FAR for office uses). Parking assumptions by alternative include estimates of surface and structured parking.

[7] Occupancy numbers from November 2006.

Projected Land Use and Population Growth

Table 1 provides an overview of land use in terms of gross building area, number of hotel rooms, and parking counts as applicable to each site and each alternative. These figures are provided for both the Constitution Drive and Independence Drive sites, and totaled for each alternative as a whole. These quantities form the basis for all other analyses in the fiscal analysis.

Table 2 summarizes 2007 demographic estimates for population, households, and employment in the City based on data from ABAG's *Projections 2005*. These figures are used to quantify current per-employee costs and revenues shown elsewhere in this analysis.

Table 3 shows the projected full-time equivalent employment increases implied by each of the alternatives. For this analysis, we assume vacancies at the following rates:

- *Existing Development*: 74% occupancy, based on current conditions[8] and tenants;
- *Existing Zoning:* 90% occupancy for office space; and
- *2007 Proposed Mixed Use Project*: 90% occupancy for office, 95% occupancy for retail/community space, and 75% occupancy for the hotel.

The employment attributable to the project would be either 938 or 2,286 employees for the *Existing Zoning Alternative* or *2007 Proposed Mixed Use Project*, respectively. As a comparison, under the current *Existing Development* alternative, there are about 508 employees, based on estimates of currently occupied space. As of November 2006, the properties were about 26% vacant, according to data from the Bohannon Organization. **Table A-8** in **Appendix A** shows the detailed land uses by address for each of the project sites, and the tenant and vacancy information as of November 2006.

The proposed project description for the *2007 Proposed Mixed Use Project* is consistent with the project application filed with the City Planning Department in January 2007 and as revised in February 2007.

[8] Based on figures from November 2006.

Figure 1: Proposed Site Plan for Independence Drive and Constitution Drive Sites

Figure 2: Illustrative Perspective: Constitution Drive Site

Figure 3: Illustrative Perspective: Independence Drive Site

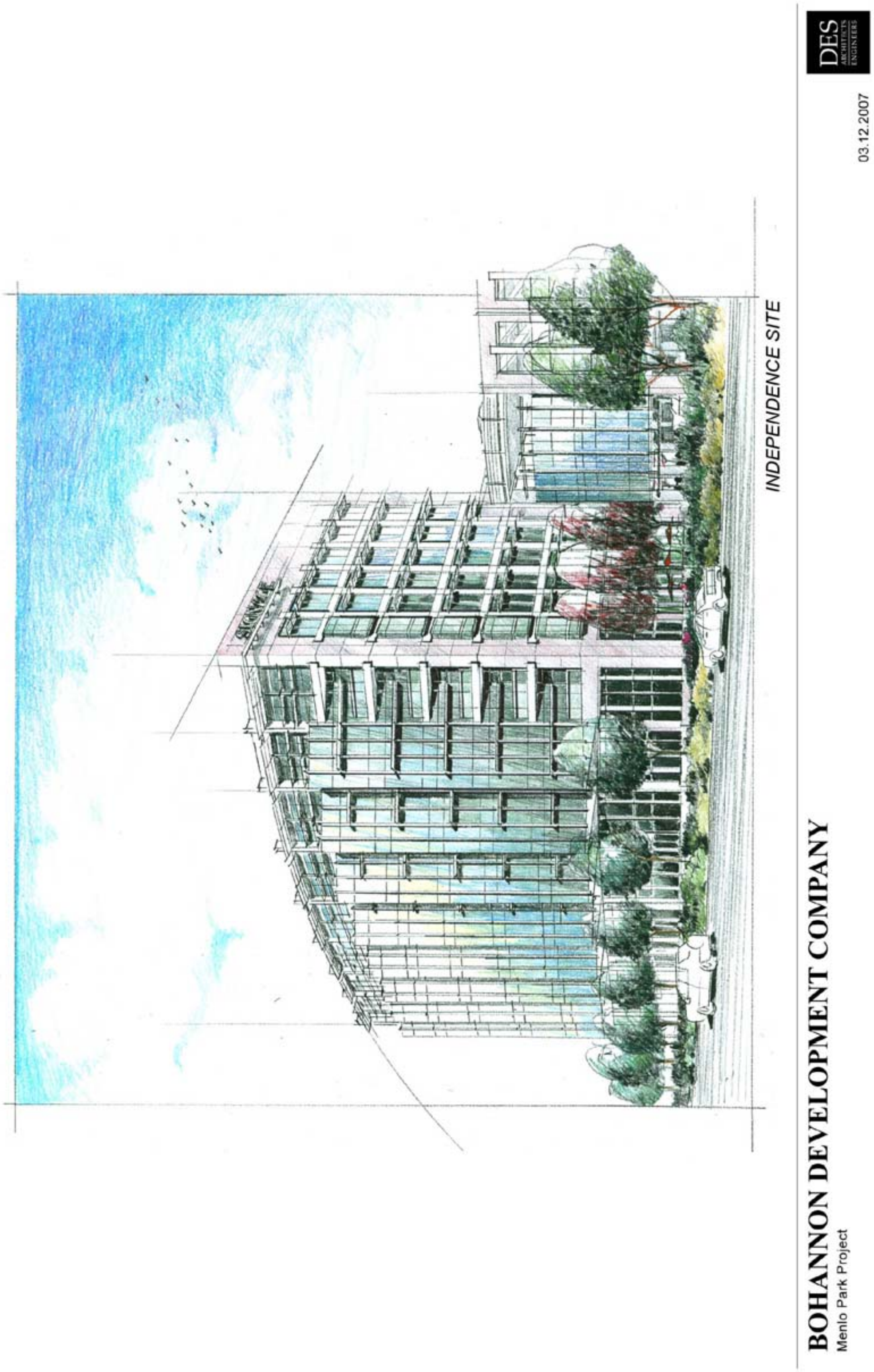


Table 1
Project Description by Site, Land Use and Alternative
Bohannon Fiscal Impact Analysis - 2007

Area/Site Land Use	**Unit of Measure**		**Alternative: Existing Development (1)**	**Alternative: Existing Zoning (3)**	**Alternative: 2007 Proposed Mixed Use Project (4)**
<u>Independence</u>					
Office	sqft		23,615	138,967	200,000
R&D	sqft		61,442		
Restaurant	sqft			-	3,556
Health Club	sqft			-	69,160
Hotel	rooms			-	206
Hotel	sqft				135,638
Surface Parking	spaces		302	579	-
Structured Parking	spaces	(2)			1,017
<u>Constitution</u>					
Office	sqft		107,438	173,660	494,726
R&D	sqft		26,236		
Retail/Community Space	sqft				10,000
Surface Parking	spaces		490	463	400
Structured Parking	spaces	(2)			1,249
<u>Total Both Sites</u>					
Office	sqft		131,053	312,627	694,726
R&D	sqft		87,678	-	-
Retail/Community Space	sqft				10,000
Restaurant	sqft		-	-	3,556
Health Club	sqft		-	-	69,160
Hotel in Rooms	rooms		-	-	206
Hotel in Sqft	sqft				135,638
Surface Parking	spaces	(5)	792	1,042	400
Structured Parking	spaces	(2)	-	-	2,266

(1) For Existing Development land uses and areas, see Table A-8.
(2) Based on rough estimates of structure parking; additional surface parking will be provided as estimated based on required by City standards.
(3) Excising zoning FAR assumption for both sites: $\boxed{0.45}$
(4) Per Planning Team Matrix, received 1/3/07.
(5) Surface parking numbers provided by Community Design + Architecture.
See Appendix A-12 for sources of assumptions and additional notes.
Sources: Community Design + Architecture; Bohannon Organization; Brion & Associates.

Table 2
Current City Demographics as of 2007
Bohannon Fiscal Impact Analysis - 2007

Item		**Current City-Wide Estimates 2007**
Population	(1)	30,920
Households	(1)	12,534
Employment	(1)	26,958
Daytime Population	(2)	39,816

(1) Data based on ABAG Projections 2005, and adjusted assuming average annual growth between 2005 and See Appendix A-12 for sources of assumptions and additional notes.

(2) Includes 100% of population and 33% of employment.

Sources: ABAG; Brion & Associates.

Table 3
Total Project Population and Employment
Bohannon Fiscal Impact Analysis - 2007

			Occupied Space and Employment by Alternative		
Land Use	**Assumptions** (1)	**Unit of Measure or**	**Existing Development**	**Existing Zoning**	**2007 Proposed Mixed Use Project**
Occupancy Rates					
Office			68%	90%	90%
R&D			84%		
Retail/Community Space					95%
Occupied Space by Land Use (2)					
Office			88,966	281,364	625,253
R&D			73,968	-	-
Retail/Community Space			-	-	9,500
Employment					
Office	300	sqft per emp.	297	938	2,084
R&D	350	sqft per emp.	211	-	-
Retail/Community !	400	sqft per emp.	-	-	25
Restaurant	89	sqft per emp.	-	-	40
Health Club	1,064	sqft per emp.	-	-	65
Hotel	0.35	emp. per room	-	-	72
Total Employees			508	938	2,286
Net New Jobs over Existing Development				430	1,778

(1) See Appendix A-12 for sources of assumptions and additional notes.
(2) Assumes existing vacancies for Existing Development Alternative as shown in Table A-8.
Assumes 10% office vacancy for Existing Zoning and Proposed Project Alternatives, which is an average rate.
Community space is assumed to have a 5% vacancy rate.
The hotel occupancy rates do not impact employment generation but rather room revenue (see Table A-3).
Employment for the hotel, health club and retail are based on estimates from Marriott RCS and
does not vary significantly based on occupancy rate.
Sources: Marriot Renaissance ClubSport; Brion & Associates.

Estimated Market and Assessed Values

Table 4 derives total assessed values for each alternative: for the *Existing Development* alternative, they derive directly from property tax assessment statements; for either of the new development alternatives, this analysis estimates market values upon project completion, in constant 2007 dollars.

Office valuation for future development involves a blending of valuation for each of the two project sites (Independence Drive and Constitution Drive) because of differences in their historical and future ownership structures. The project sponsor intends to create a new ownership entity for the Independence Drive site upon its development, which would trigger a reassessment to current market value of the land. For the Constitution

Drive site, however, such a restructuring already occurred several years ago, and thus, the assessed value of new development would exclude land value. Both Independence Drive and Constitution Drive valuations would include the value of new improvements (construction costs). For the Independence Drive site, which includes land and buildings, the assessed value is estimated at $300 per square feet of office space. Constitution Drive's assessment, for improvements only, would be less, at about $250 per square feet. For this analysis, the weighted average value of both sites combined is about $261 per square feet of new building for property tax estimating purposes.

The hotel is assumed to have an assessed value of $325,000 per room, or a total of about $67 million. This value includes the values of the fitness club/spa and the restaurant associated with the hotel.

As shown on **Table 4**, the *2007 Proposed Mixed Use Project* would result in about $306.3 million of assessed value, as compared to $81.5 million for the *Existing Zoning Alternative* and approximately $31.4 million in current assessed value for both sites (see **Table A-7**). The values of new development are also indicative of property tax revenue potential, to be discussed later in the report.

In the two new development alternatives, projected market values for each land use are presented on an applicable per-unit basis (gross square feet, hotel room, or parking space) in **Table 4**. In the case of *Existing Development*, the market value figures for office and R&D are shown for comparison purposes and come from calculations based on data from the sites' property tax statements from San Mateo County. The current average assessed value is about $143 per building square foot.[9] In the *2007 Proposed Mixed Use Project*, the office component comprises about 59% of total market value, followed by the hotel[10] (22%), and then by structured parking with the retail/community space it houses (18%).

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[9] See Table A-7 for detailed assessed value by parcel for the two sites.
[10] Hotel assessed value includes retail and fitness club/spa values, according to Marriot.

Table 4
Market Values by Land Use and Estimated Assessed Value
Bohannon Fiscal Impact Analysis - 2007

Land Use	Status	Unit of Measure	Average Market Value/Price	Existing Development	Existing Zoning	2007 Proposed Mixed Use Project
				(1)		
Non-Residential						
Office & R&D	Existing Dev.	sqft	$143 (1)	$31,370,626		
Retail/Community Space	New Dev.	sqft	$150			$1,500,000
Office	New Dev.	sqft	$264 (2)		$82,656,675	$183,681,500
Restaurant	New Dev.	sqft	(3)		$0	$0
Health Club	New Dev.	sqft	(3)		$0	$0
Hotel	New Dev.	room	$325,000 (3)		$0	$66,950,000
Str. Parking	New Dev.	space	$25,000		$0	$56,650,000
Total Assessed Value				**$31,370,626**	**$82,656,675**	**$308,781,500**

(1) Based on actual Assessed Value for all properties on Independence and Constitution sites for Tax Bill 2006-2007. See Table A-7 for detail by site. The average value is calculated for both sites.

(2) Assumes land and building value for Independence site and presumes ownership restructuring by the Bohannon Org, which triggers new assessment to market value. For Constitution, new building value only as property ownership would not change. This figure assumes $300 per sqft for Independence and $250 per sqft for Constitution and a weighted average value.

(3) Based on information from Marriott; retail and health club values are included in average hotel room value.
PKF Consulting provided the estimate of average value per room, based on Marriott's data.

See Appendix A-12 for sources of assumptions and additional notes.

Sources: Bohannon Organization; Brion & Associates.

3. FISCAL IMPACT ANALYSIS

This chapter describes the methodology and assumptions used in the fiscal analysis, followed by the fiscal impacts of the alternatives proposed for the Bohannon sites. Refer to **Appendix A**, **Table A-12** for detailed information about the sources of the assumptions used in this analysis; other **Appendix A** tables provide detailed calculations of revenues and costs for the project. The fiscal impact analysis analyzes the project's impacts on the City's General Fund Budget based on the Fiscal Year 2006-2007 budget—both revenues and expenditures—at build out (see **Table A-6** in **Appendix A**). Figures are presented in constant 2007 dollars for comparison purposes. General Fund revenues include discretionary revenues, such as property tax, sales tax, transient occupancy tax, and other per-employee revenues. General Fund expenditures include costs for city services, such as police, administrative services, and public works costs.

Only those General Fund revenues impacted by the project are forecast in this analysis. Certain other categories are not analyzed, as they are neither impacted nor offset by equal departmental expenses.[11] The Fire District is not presumed to have any fiscal impact as it has adequate revenues to serve development through property tax revenues. In addition, the Fire District has also indicated that they believe the new development can be adequately serviced through existing facilities and staffing. Fire service will be further reviewed and analyzed in the project Environmental Impact Report (EIR).[12]

Methodology and Assumptions

The fiscal model is based on the revenues and expenditures included in the City's Proposed 2006-2007 Annual Budget. For some revenue or expenditure items, the average per-employee figure is based on current demographics and the current budget for a particular item. Current citywide per-employee budget factors are then applied to the new development associated with the proposed project alternatives and existing development's estimated employment. The approach and method used for each General Fund revenue and expenditure item is described below. Detailed revenue estimates and supporting data are provided in **Appendix A**.

General Fund Revenues

Table 5 summarizes the City's current General Fund revenues and the assumptions used in this analysis. Only those General Fund revenues that are impacted by any of the development alternatives are forecasted: Property, Sales, and Transient Occupancy Taxes; Franchise Fees; Business Licenses; and Fines. Other revenues, which are not

[11] Examples of non-impacted General Fund revenues are Other Permits, Other State & Federal Revenue, Other Financing Sources, and Donations. Examples of revenues with offset costs are Building Permits and Charges for Services.
[12] Based on personal communication with Chief Wilson, Menlo Park Fire District, during March 2004; both sites could be served with existing facilities and staffing but further review would be undertaken during the EIR analysis.

expected to be impacted from the alternatives, or which are used to directly offset departmental costs, are not forecast in this analysis. **Table A-5** in **Appendix A** presents detailed General Fund revenue data and summarizes which revenues are used to offset certain departmental costs.

Property Tax

Refer to the "Estimated Market and Assessed Values" section, which begins on page 19, and **Table 4,** above, for the derivation of assessed values of each development alternative. Property tax revenue estimates for *Existing Development* are from County of San Mateo secured property tax statements for Fiscal Year 2006-07. Property tax in the State of California equals 1.0 % of the assessed value, and assessed value can increase at 2% per year, or, if resold, assessed at current market value. Of this 1.0%, the City receives 11.4% in the M-2 District.[13] Detailed property tax revenue estimates are shown in **Table A-1** in **Appendix A**. The City also receives additional tax revenue for the Parks and Community Services Department; this additional revenue is shown in **Table A-1** but is restricted for park bond debt service and other park and recreation improvements.

Sales Tax

The City receives 1.0% of the total State-levied sales tax rate of 8.25% in San Mateo County. While the majority of the City's sales tax comes from retail space, office space often generates modest sales tax revenue, and at lower rates than retail.[14] Hotel uses also generate sales tax directly from sales on site and indirectly by visitor spending in the City. However, this study does not estimate visitor spending beyond that generated directly at the hotel site in order to provide conservative estimates. Detailed estimates of sales tax for the project alternatives are provided in **Table A-2** in **Appendix A.** No sales tax revenue is assumed from the Retail/Community Space. For the purposes of this analysis, sales tax comes from the following sources, utilizing the following estimating methodology and assumptions by source:

- *Retail sales from hotel guests*: This analysis models taxable purchases by hotel guests, including their expenditures at the hotel, at about $80 per occupied room night, based on Marriot data. Based on this expenditure assumption and the occupancy levels used to estimate TOT revenue as shown in **Table A-3,** retail expenditures from hotel guests are estimated. The retail sale tax from hotel guests includes sales tax from the restaurant and room service at the hotel.

[13] Based on information from the City's Finance Department and the San Mateo County Assessor's office.
[14] The sales tax factors used in this study are based on a detailed analysis of the City's actual sales tax data by business for non-retail businesses in the M-2 District and for property owned by the Bohannon Organization. This analysis is presented in a technical memorandum prepared by Brion & Associates dated April 8, 2004, entitled "Menlo Park Sales Tax Research and Analysis."

- *Retail sales from fitness club/spa*: About 25% of the fitness club/spa revenues are expected to generate sales tax based on information from Marriott.

- *Retail sales from employees working in project office space*: Relying upon data in a 2004 employee retail spending survey, this analysis estimates that employees will spend about $15.04 per workday on average in taxable retail sales in the City.[15] Reflecting the location of the project sites (east of US Highway 101), we assume a conservative average expenditure per office worker that is 50% less than the survey's reported factor. This analysis projects this daily rate over a 240-workday year and makes a deductive adjustment (less $2.06 million in taxable sales) for the project's restaurant sales so as not to double-count its sales. This analysis uses the employee estimates shown in **Table 3** to estimate potential sales tax from employees.

- *Commercial businesses occupying leased space (non-retail) that generate sales tax through direct product sales*: This analysis estimates taxable sales per square foot based on actual sales tax data from the 2002 State Board of Equalization for Menlo Park, provided by the City's Finance Department, tenant data from the Bohannon Organization, and M-2 land use information provided by the City's Planning Department, and as analyzed by Brion & Associates in 2004. The taxable sales per square foot factors are applied to the square footage by land use to arrive at taxable sales for each alternative. These taxable sales factors are $5.48 and $9.19 per square foot for office and R&D uses, respectively, and has been adjusted for inflation from 2002 data to 2006 figures.

Transit Occupancy Tax

As shown in **Table A-3** in **Appendix A**, this analysis assumes that 75% of hotel rooms will be occupied on average per year, purchased at an average room rate of $239 per night. These assumptions are based on data from the PKF Consulting hotel market study for the subject project (see **Appendix B**) and information provided by Marriot RCS. The rates assume stabilized operations in Year 4 or 2012.[16]

Business License Tax

This revenue source is based on a detailed assessment of actual city receipts from businesses that use office space and an estimated average expenditure of $43.20 per office square feet and $32.99 per R&D square feet (see **Tables A-9** and **Table A-11** in **Appendix A**). For the hotel, fitness club/spa, and restaurant, the business license tax is

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[15] Based on 50% average annual expenditures per week ($150.44) for suburban locations multiplied by 48 work weeks divided by 240 workdays. (Source: International Council for Shopping Centers, "Office Work Retail Spending Patterns," 2004). The factor provided in the survey has been adjusted for inflation using the Consumer Price Index.

[16] See "Report on the Potential Market Demand for the Proposed Renaissance Club Sport to be Located in Menlo Park, California" prepared by PKF Consulting, March 2007 (**Appendix B**).

based on the estimated gross sales for the project, as shown in **Table A-10**. No business license revenue is assumed from the Retail/Community Space although some may be generated.

Other Per-Capita Revenues

The City receives other General Fund revenues from new population and employment. This analysis assumes that the City will receive these revenues at the same rate as those associated with the current budget on a per employee basis, as follows:

General Fund Revenue Item*	FY 06-07 Rate	Method (Unit of Measure)
Franchise Fees	$25.78	per employee
Fines	$15.39	per employee

* Excerpted from **Table 5**

All other revenues that are part of the General Fund, shown in **Table 5**, are either offset by General Fund costs or are unchanged by growth attributable to this project. For instance, motor vehicle in-lieu revenues are not directly associated with employment growth or hotel use and are derived based on the City's population; thus, these revenues are not forecast. Other revenues are used to directly offset departmental costs. Only net departmental costs are forecast, as discussed below.

General Fund Expenditures

General Fund expenditures by City Department are shown in **Table 6**. The City receives revenues to the General Fund that directly offset City departmental costs. These include charges for services to the public, permit fees, building inspection fees, and charges for planning services, such as environmental reports. These revenues are subtracted from each departmental cost to estimate a "net" departmental cost. This analysis assumes that the City will continue to charge for services at the current rates and that new development will generate charges for services at the same rates as existing development. In reality, the City may increase charges for services over time and net costs may be less.

City Departments also have overall fixed costs that are not directly impacted by growth. An example of such fixed costs would be the City Council, which does not add council members as the city grows. While it is true that some of the City's costs are fixed, this analysis does not assume any fixed costs to be conservative. This analysis forecasts net expenditures by City department, using an average variable cost per employee approach. After subtracting departmental revenues, the departmental expenditure is reduced. An estimate of how much of the net cost is attributable to employment leads to the Current Cost per Employee (see below), which is then applied to the number of employees by alternative to estimate expenditure impacts for each project alternative. As indicated below, police services generate the greatest costs, followed by administrative services, public works, and community services.

General Fund Departmental Expenditure Factor*	**Variable Cost Per Employee**
Administration Services—25%	$40.06
Community Development—25%	$2.22
Community Services—25%	$26.36
Library—10%	$5.79
Police—25%	$90.69
Public Works—25%	$36.34
Total GF Expenditures	**$201.46**

* Excerpted from **Table 6**

Table 7 compares and summarizes the fiscal benefits by alternative, based on General Fund revenues and expenditures. The *2007 Proposed Mixed Use Project* will generate a net fiscal benefit of approximately $1.6 million annually, compared to $32,700 annually for the *Existing Zoning Alternative* and approximately $4,300 annually for *Existing Development*.

Table 5
General Fund Revenues by Alternative
Bohannon Fiscal Impact Analysis - 2007

Revenue Item	Proposed FY 06-07 Budget: Main Categories	Proposed FY 06-07 Budget: Subcategories	Forecasting Method or Reference		Current Per Employee Factor	Project Revenues by Alternative: Existing Development	Project Revenues by Alternative: Existing Zoning	Project Revenues by Alternative: 2007 Proposed Mixed Use Project
Property Tax	$10,035,000		See Table A-1			$35,888	$93,272	$350,386
Sales Tax	$6,120,000		See Table A-2			$30,011	$49,281	$145,312
Transient Occupancy	$1,250,000		See Table A-3			$0	$0	$1,370,331
Franchise Fees	$1,287,000		Per Employee	(1)	$25.78	$13,093	$24,179	$58,938
Licenses and Permits	$3,020,500							
Business Licenses		$1,387,500	See Table A-10			$19,783	$40,517	$98,037
Building Permits		$1,552,000	Offset Costs					
Other Lic. & Permits		$81,000	Offset Costs					
Intergovernmental Revenues	$1,140,572		Not forecasted					
Fines	$830,000		Per Employee	(2)	$15.39	$7,819	$14,438	$35,194
Interest and Rent Income	$2,040,000		Not forecasted					
Charges for Services	$4,438,555		Offset Costs					
Transfers and Other	$5,266,720		Not forecasted					
Total General Fund Revenues	**$35,428,347**					**$106,594**	**$221,687**	**$2,058,198**

(1) Based on City Finance Department data for 1997-98 usage, businesses contributed 54% and residential customers contributed 46% of total franchise fee revenues. Analysis assumes 54% of franchise fees are from employment uses: this figure is then divided by the current number of city employees.
(2) Assumes 50% are from employment uses and 50% from residential uses per Finance Department.
See Appendix A-12 for sources of assumptions and additional notes.

Sources: City of Menlo Park; Brion & Associates.

Table 6
General Fund Expenditures by Alternative
Bohannon Fiscal Impact Analysis - 2007

Expenditure	FY 2006-07 City Budget Expenditures	FY 2006-07 Off-setting Revenues (2)	Net Departmental Costs	Amount Attributable to Employment Uses		Current Per Employee Cost Factor	Departmental Costs by Alternative		
				(4) Percent	(4) Amount		Existing Development	Existing Zoning	2007 Proposed Mixed Use Project
Administration Services	$4,380,685	$61,000	$4,319,685	25%	$1,079,921	$40.06	$20,346	$37,571	$91,583
Community Development	$2,332,784	$2,093,300	$239,484	25%	$59,871	$2.22	$1,128	$2,083	$5,077
Community Services	$6,036,180	$3,194,073	$2,842,107	25%	$710,527	$26.36	$13,386	$24,720	$60,256
Library	$1,832,445	$270,432	$1,562,013	10%	$156,201	$5.79	$2,943	$5,434	$13,247
Police	$10,047,807	$268,750	$9,779,057	25%	$2,444,764	$90.69	$46,060	$85,054	$207,329
Public Works	$4,102,600	$184,000	$3,918,600	25%	$979,650	$36.34	$18,457	$34,082	$83,079
Total General Fund (without transfers)	**$28,732,501**	**$6,071,555**	**$22,660,946**	**24%**	**$5,430,935**	**$201.46**	**$102,319**	**$188,944**	**$460,571**
Percent of Expenditures		21%							

(1) Represents revenue used to offset department costs like permit fees and charges for services; these revenues are not forecast and are net from total department costs.
(2) Includes charges for services and/or licenses and permits (see Table A-5).
(3) Represents an estimate of what percent of a department's cost are fixed and not directly impacted by growth.
(4) Assumptions are from the City of Menlo Park's Fiscal Impact Manual and Report dated 2.5.02, with the exception of Community Service. The City's report assumes 40% of this department is employment driven; we have used 25% based on a review of the services offered by Community Services. Child care services are assumed to be used by employees and residents but most other community services are oriented towards residents.

See Appendix A-12 for sources of assumptions and additional notes.

Sources: City of Menlo Park; Brion & Associates.

Table 7
Summary of Fiscal Analysis by Alternative
Bohannon Fiscal Impact Analysis - 2007

	Fiscal Results by Alternative					
General Fund Category	**Existing Development**	**Percent Distribution**	**Existing Zoning**	**Percent Distribution**	**2007 Proposed Mixed Use Project**	**Percent Distribution**
General Fund Revenues						
Property Tax	$35,888	34%	$93,272	42%	$350,386	17%
Sales Tax	$30,011	28%	$49,281	22%	$145,312	7%
Transient Occupancy	$0	0%	$0	0%	$1,370,331	67%
Franchise Fees	$13,093	12%	$24,179	11%	$58,938	3%
Business Licenses	$19,783	19%	$40,517	18%	$98,037	5%
Fines	$7,819	7%	$14,438	7%	$35,194	2%
Total Gen Fund Revenues	$106,594	100%	$221,687	100%	$2,058,198	100%
General Fund Expenditures						
Administration Services	$20,346	20%	$37,571	20%	$91,583	20%
Community Development	$1,128	1%	$2,083	1%	$5,077	1%
Community Services	$13,386	13%	$24,720	13%	$60,256	13%
Library	$2,943	3%	$5,434	3%	$13,247	3%
Police	$46,060	45%	$85,054	45%	$207,329	45%
Public Works	$18,457	18%	$34,082	18%	$83,079	18%
				0%		
Total Gen Fund Expenditures	$102,319	100%	$188,944	100%	$460,571	100%
GF Net Fiscal Balance	**$4,275**		**$32,743**		**$1,597,626**	
Other Tax Revenues						
Non Gen Fund Parcel Taxes for Park & Recreation	**$5,772**		**$15,002**		**$56,356**	

Sources: City of Menlo Park; Brion & Associates.

Other Benefits and Revenues

Temporary Employment

Table 8 shows the expected temporary construction employment associated with the *Existing Zoning* and the *2007 Proposed Mixed Use* development alternatives. Construction employment is typically expressed in “job years,” or one full year of employment in the construction industry, as these jobs are not considered permanent employment. Based on assumed construction costs by type of development within each development alternative, a number of temporary jobs are expected to be created. Temporary jobs are calculated by taking 50% of total construction costs (estimated labor costs) and dividing that amount by the average commercial construction salary, which is approximately $77,200 for San Mateo County.[17] For the *Existing Zoning Alternative*, a total of 466 job years are expected to be created, while for the *2007 Proposed Mixed Use*

[17] This amount is based on the California Employment Development Department’s average salaries for 2005 for San Mateo County.

Project, 1,813 job years are expected to be created. It is anticipated that most of the construction jobs associated with either alternative will be held by residents and businesses from Menlo Park and surrounding communities.

Impact Fee Revenues

Another source of revenues to the City comes from one-time impact fees for public services such as water, fire, sewer, traffic mitigation, schools, and the City's below market rate housing program. Impact fees are assessed only on net new development. As there are currently approximately 218,700 square feet of office and R&D development on the sites, this existing square footage is subtracted from the total proposed square footage from each alternative in order to calculate the net new development for each alternative scenario. **Table 9** summarizes the impact fee revenues for the two new development alternatives; the *Existing Development* alternative would not generate any impact fees.

The City charges impact fees for water meter connections, depending on the size of the meter, as well as a fee for fire services. The *Existing Zoning Alternative* would generate approximately $35,300 in such revenues to the City, while the *2007 Proposed Mixed Use Project* would generate approximately $68,000.[18]

The West Bay Sanitary District is the local agency that assesses sewer fees on new development. Based on the sewer capacity required for different types of development, it is estimated that the *Existing Zoning Alternative* would owe approximately $12,000 for sewer fees and the *2007 Proposed Mixed Use Project* would pay approximately $839,000 in sewer fees.

[18] It is not clear at this time how many meters exist on the two sites, and it may be that no new meter connection fees would be due; to be conservative, this analysis estimates some new meter fees.

Table 8
Construction Costs and Employment
Bohannon Fiscal Impact Analysis - 2007

Land Use		Construction Unit Cost (1)	Unit of Measure	Quantity: Existing Zoning	Quantity: 2007 Proposed Mixed Use Project	Cost: Existing Zoning	Cost: 2007 Proposed Mixed Use Project
Estimated Construction Costs, Both Sites							
Office		$200	/sqft	312,627	694,726	$62,525,340	$138,945,200
Retail/Community Space		$100	/sqft	-	10,000	$0	$1,000,000
Restaurant	(2)		/sqft	-	3,556	$0	$0
Health Club	(2)		/sqft	-	69,160	$0	$0
Hotel in Rooms	(2)	$357,780	/room	-	206	$0	$73,702,659
Structured Parking		$25,000	/space	-	2,266	$0	$56,650,000
In-tract Sitework		$12	/sqft	694,726	694,726	$8,336,712	$8,336,712
Surface Parking		$4	/sqft	-	50	$0	$200
Landscape Areas		$5	/sqft	84,724	93,297	$423,620	$466,485
Streetscape & Street Trees		$45	/LF	2,252	2,475	$101,351	$111,375
Hardscape Areas		$10	/sqft	56,630	56,630	$566,300	$566,300
Total Est. Construction Cost						**$71,953,323**	**$279,778,931**
Temporary Construction Employment							
		Assumption					
Direct Labor Cost	(1)	50%	of const. cost (see above)			$35,976,662	$139,889,466
Avg. Construction Salary	(3)	$77,168	per year per person				
Total Construction Job Years						**466**	**1,813**

(1) Source of construction unit cost estimates and other project construction assumptions: Bohannon Organization.
(2) Hotel construction cost is from PKF Consulting and excludes parking garage; cost per room includes retail and health club costs.
(3) Commercial Construction Salary based upon California CDD data for San Mateo County, 2005.
Source:
California Employment Development Department, Labor Market Information, Quarterly Census of Employment and Wages (QCEW)
Industry Detail - see website:
http://www.calmis.ca.gov/file/es202/CEW-Detail_NAICS.cfm?MajorIndustryCode=1012&GeoCode=06081&Year=2005&OwnCode=5&Qtr=00

Table 9
Impact Fee Revenues & Project Infrastructure Costs
Bohannon Fiscal Impact Analysis - 2007

Fee Category by Use		2006 Impact Fee Rates	Unit of Measure	Quantity (1) Existing Zoning	Quantity (1) 2007 Proposed Mixed Use Project		Total Impact Fees Existing Zoning	Total Impact Fees 2007 Proposed Mixed Use Project
Impact Fees								
Water - Capital Facilities Charge, Office	(2)	$8,320	1-1/2" meter	2	2		$16,640	$16,640
Water - Capital Facilities Charge, Restaurant	(2)	$8,320	1-1/2" meter	-	1		$0	$8,320
Water - Capital Facilities Charge, Hotel	(2)	$24,440	3" meter	-	1		$0	$24,440
Water - Capital Facilities Charge, Site/Parking	(2)	$8,320	1-1/2" meter	2	2		$16,640	$16,640
Fire - Capital Facilities Charge, Independence	(2)	$1,000	location	1	1		$1,000	$1,000
Fire - Capital Facilities Charge, Constitution	(2)	$1,000	location	1	1		$1,000	$1,000
Sewer Fees	(3)	$14.24	gallon				$12,118	$838,853
Traffic Impact Fee	(4)	$1.60	net new sqft	93,896	694,349	(5)	$150,233	$1,110,958
BMR Housing In-Lieu Fee for Office and R&D	(6)	$11.89	net new sqft	93,896	475,995		$1,116,420	$5,659,581
BMR Housing In-Lieu Fee for Other Commercial Dev.	(6)	$6.48	net new sqft	-	218,354	(5)	$0	$1,414,934
School Impact Fee	(7)	$0.42	net new sqft	93,896	694,349	(5)	$39,436	$291,627
Total Impact Fees							**$1,353,488**	**$9,383,992**
City of Menlo Park Fees							$1,314,051	$9,092,366
Redwood City Elementary School District		$0.28					$26,666	$197,195
Sequoia High School		$0.14					$12,770	$94,431
Total Fee per Sqft of Net New Space							$14.41	$13.51

(1) The impact fees for traffic, schools, and BMR Housing are all based on net new development. Therefore, the impact fee revenues calculated here reflect net new development. The combined sites currently have 218,731 sqft of office and R&D space. This amount is subtracted from the total proposed new development square footage in order to calculate the amount of net new development on which impact fees will be assessed.
(2) City of Menlo Park Master Fee Schedule, Rev. July 1, 2004
(3) Sewer Fees are based on estimates from the West Bay Sanitary District, which services Menlo Park. The calculation is based on the discharge capacity required for each alternative minus the current discharge capacity, in order to allocate costs for net new development under each alternative. The current value used is $14.24 per gallon based on various flow rates by land use type;
(4) Traffic fee is currently $1.60 per sqft according to Chip Taylor (Dec. 2006), Menlo Park; but the fee may increase in 8-9 months.
(5) Includes office, retail, gym, and an estimated 139,200 sqft of hotel space and 10,000 sqft of community space.
(6) Below market rate housing information is from the City of Menlo Park Planning Department website. "City of Menlo Park, Zoning Ordinance" document, adopted on August 17, 2006: page 116, 16.96.030 item #3.
(7) School impact fees for the City of Menlo Park are assessed by the Sequoia Union High School district. Specific fee amount provided by Sequoia Union SD Maintenance Dept by telephone 12/14/06. Commercial fee rate.
(8) Based on telephone conversation with Annette Rickey, Maintenance Office, Sequoia Union, 8:30 am May 22, 2007.
Sources: City of Menlo Park; Bohannon Organization; Brion & Associates.

These fees were estimated based on the amount of net new development and type of development proposed in each alternative.[19] First, a total capacity for each development alternative was established and then a fee of $14.24 per gallon of that capacity was assessed. According to the West Bay Sanitary District, the current capacity for the sites is 22,596 gallons per day. The *Existing Zoning Alternative* would require a capacity of 23,417 gallons per day (851 more gallons per day than current capacity allows). The *2007 Proposed Mixed Use Project* would require approximately 81,447 gallons per day, almost quadrupling the current capacity.

The City also assesses an impact fee for traffic mitigation. The traffic fee is calculated at $1.60 per square feet. Under the two alternative development scenarios, the *Existing Zoning Alternative* would generate approximately $150,000 in traffic revenues, and the *2007 Proposed Mixed Use Project* would generate approximately $1.1 million.

The City has a Below Market Rate (BMR) housing program that requires all new commercial development that brings new employees to the city to pay an in-lieu fee that contributes to programs that increase the amount of low and moderate housing supply in the city. The fee is currently $11.89 per square foot of office or R&D development and $6.48 per square foot for all other types of commercial development. At these rates, the *Existing Zoning Alternative* would generate approximate revenues of $1.1 million for the BMR housing program, while the *2007 Proposed Mixed Use Project* would generate approximately $7.1 million.

Another impact fee that new development is required to pay is for schools. The Sequoia Union High School District assesses the fees for development in Menlo Park. New non-residential development is assessed a fee of $0.42 per square feet. The *Existing Zoning Alternative* would generate school revenues of approximately $39,400, while the *2007 Proposed Mixed Use Project* would generate approximately $291,600.

In sum, the *Existing Zoning Alternative* would generate $1.4 million in impact fee revenue, and the *2007 Proposed Mixed Use Project* would generate $9.4 million in one-time impact fee revenue for the City or 593% more than the *Existing Zoning Alternative*.

One-Time Real Property Transfer Tax

Table A-4 estimates the one-time property transfer tax that would be generated by the project. The Bohannon Organization reorganized the ownership of the Constitution Drive site a few years ago, so there would be no change of ownership for this part of the project. The Independence Drive site's ownership would be restructured and a small transfer tax would be generated by the transaction. This tax is estimated based on the current value of the land of the Constitution Drive site, and the existing assessed value of the buildings. In reality, the value of the land for the Independence Drive site may be higher at the time of the transaction.

[19] Per personal communication with Sharon Hogan at the West Bay Sanitary District who estimated fees based on the different development proposals.

This approach is considered conservative. **Table A-7** summarizes the existing assessed values of land and buildings by address and site. The project is estimated to generate about $8,300 in one-time transfer tax revenue, either under the *Existing Zoning* or *2007 Proposed Mixed Use Project* alternatives.

4. Fiscal Results and Conclusions

This chapter presents the results of the fiscal analysis, along with conclusions. As discussed in **Chapter 1, Introduction**, this report analyzes project impacts on the City's General Fund revenues and expenditures, based on the City's current Adopted Budget (FY 2006-07) and existing demographic conditions. It provides a snapshot of how the project would perform fiscally, assuming today's budget conditions. This type of analysis is not a budget forecast, as discussed in the **Introduction**. However, it provides useful information as to the potential costs and benefits of a project, and it is a functional planning tool.

Fiscal Results

Table 10 summarizes key project assumptions for each alternative:

Table 10
Summary of Project Assumptions by Alternative

Item	Existing Development	Existing Zoning	2007 Proposed Mixed Use Project
Office	131,053 sqft	312,627 sqft	694,726 sqft
R&D	87,678 sqft	--	--
Hotel Rooms	--	--	206 rooms
Restaurant/Café	--	--	3,556 sqft
Fitness Club/Spa	--	--	69,160 sqft
Retail/Community Space			10,000 sqft
Structured Parking	--	--	2,266 spaces
Surface Parking	792 spaces	1,042 spaces	400 spaces

To quantify the estimated fiscal benefit to the City for each alternative, this analysis estimates the Net Fiscal Balance, or the difference between expected revenues and expenditures from each alternative's impact to the City's General Fund. The fiscal analysis shows positive fiscal balances for all alternatives and an especially large fiscal benefit from the *2007 Proposed Mixed Use Project*. When hotel, fitness club/spa, and retail space is included in the mix, as in the *2007 Proposed Mixed Use Project*, the beneficial effect on the General Fund balance is significantly greater, or about $1.6 million per year in constant dollars.

Total revenues for the *2007 Proposed Mixed Use Project* equal about $2.06 million, while costs equal about $461,000. In other words, the *2007 Proposed Mixed Use Project* generates a return to the General Fund of about $4.47 for every dollar expended. **Figures 4** through **6** summarize the net annual benefits of the proposed project compared to existing development.

Figure 4: Fiscal Balance: Existing Development & Proposed Project

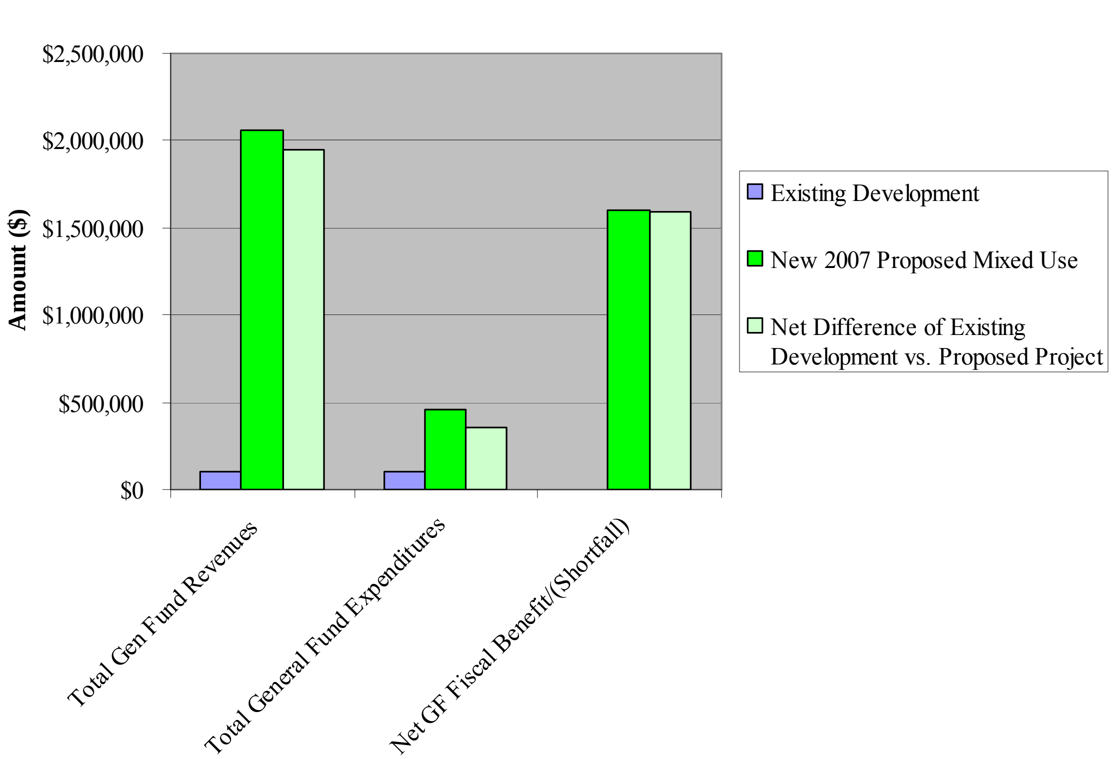


Figure 5: Estimated Net New General Fund Revenues- Bohannon 2007 Proposed Project Minus Existing Development

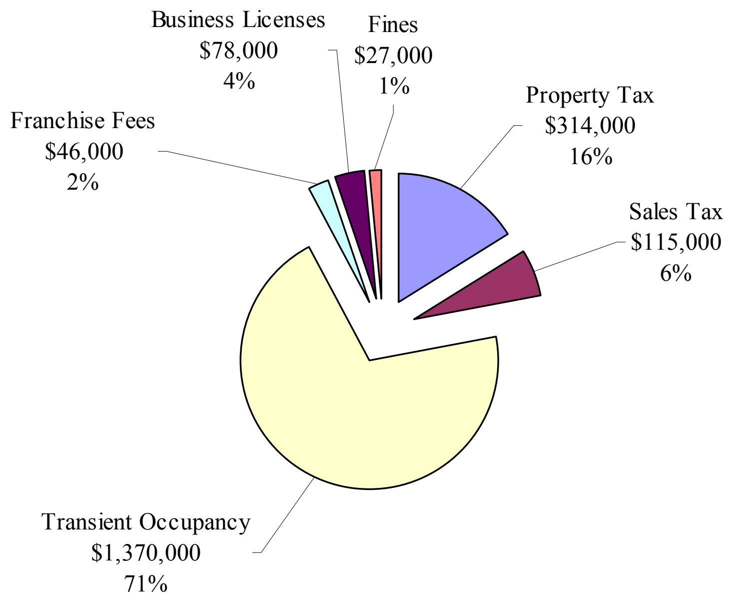
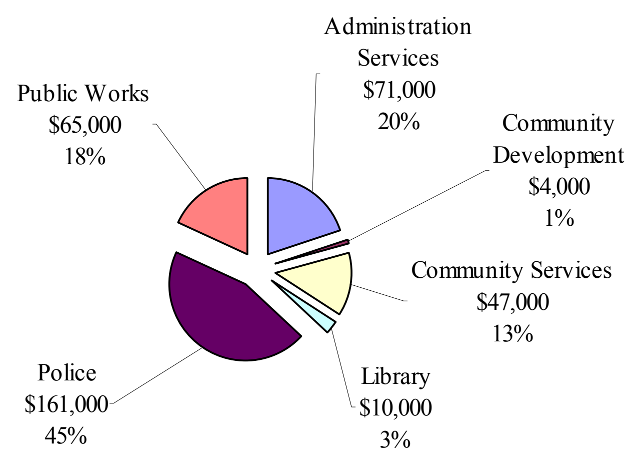


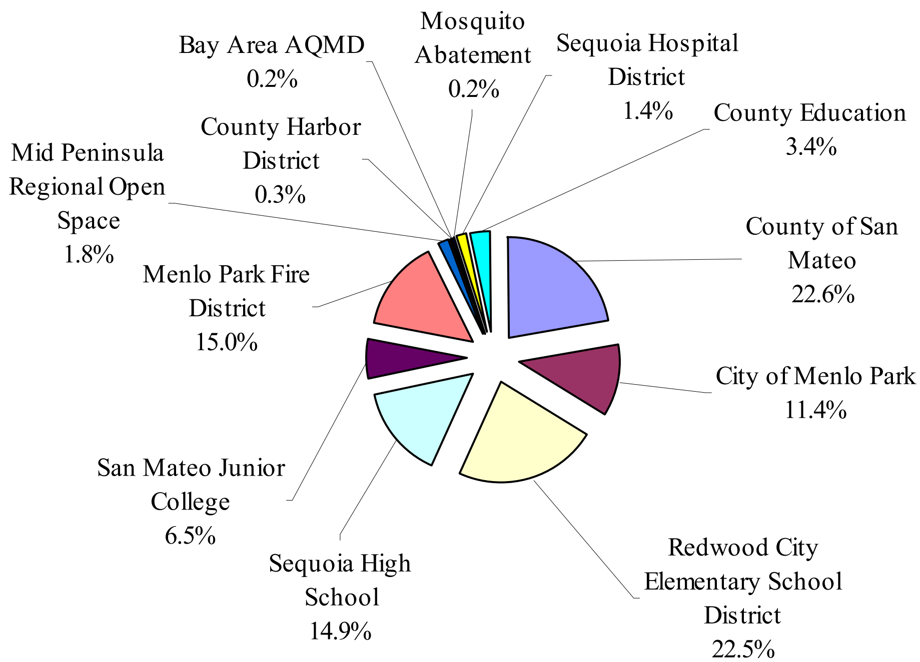
Figure 6: Estimated Net New General Fund Expenditures- Bohannon 2007 Proposed Project Minus Existing Development



Property tax generated by any alternative will benefit the City, as well as other local agencies, as shown in **Figure 7** (also see **Table A-1**). The *2007 Proposed Mixed Use Project* is estimated to generate the greatest amount of revenues to the City at approximately $350,400 annually though the distribution of the 1% property tax. The City receives 11.4% of the1% property tax distribution, and the City will also receive an additional $56,400 through Park and Recreation taxes.

The Bohannon properties are located adjacent to the Belle Haven neighborhood of Menlo Park, and children who live in the surrounding neighborhood attend the Ravenswood Elementary School District and Sequoia High School District. However, property tax revenues generated from this site accrue to the Redwood City Elementary School District, which receives 22.5% of the 1% property tax distribution, or approximately $688,800 per year. Property tax revenues would not go to the Ravenswood School District, and consequently, the neighborhood adjacent to the development site will not benefit directly in regards to receiving funding to their local elementary school district. Belle Haven residents do attend the Sequoia High School District, which would benefit from the property tax revenues it receives, which is 14.9% of the 1% property tax, totaling approximately $456,400 annually.

Figure 7: Distribution of the 1% Property Tax for the Bohannon Properties



Conclusions

A summary of the major findings and conclusions of this analysis is presented in **Chapter 1**. Assuming current vacancies of the two sites, *Existing Development* does not generate significant net revenues to the City. In fact, existing development can be considered fiscally neutral for the City. The proposed intensification of the site into a mixed-use development clearly generates substantial revenue to the City. The inclusion of a hotel, fitness club/spa, and retail/community space is the basis of the significantly positive fiscal balance, which would be more than $1.5 million dollars to the City on an annual basis. Again, this analysis presumes constant 2007 dollars and buildout of each alternative and expected hotel room rates as confirmed by PKF Consulting.

APPENDIX A: DETAILED FISCAL MODEL AND SUPPORTING DATA TABLES

Appendix A:
Detailed Revenue and Expenditures Projections
Bohannon Fiscal Impact Analysis - 2007

Source: Brion & Associates.

Table A-1
Property Tax Revenues by Alternative
Bohannon Fiscal Impact Analysis - 2007

Land Use			**Project Alternatives** **Existing Development**	 **Existing Zoning**	 **2007 Proposed Mixed Use Project**
Assessed Value, Both Sites					
Office, or Office & R&D	sqft		$31,370,626	$82,656,675	$183,681,500
Retail/Community Space	sqft		$0	$0	$1,500,000
Restaurant	sqft			$0	$0
Health Club	sqft			$0	$0
Hotel	rooms			$0	$66,950,000
Structured Parking	spaces			$0	$56,650,000
Total Assessed Value			**$31,370,626**	**$82,656,675**	**$308,781,500**
1% Property Tax Revenue	1%		$313,706	$826,567	$3,087,815
Distribution of 1% Property Tax					
City of Menlo Park - GF	11.4%	(2)	**$35,888**	**$94,559**	**$353,246**
Redwood City Elementary School District	22.5%		$70,553	$185,895	$694,450
Sequoia High School	14.9%		$46,742	$123,158	$460,084
San Mateo Junior College	6.5%		$20,391	$53,727	$200,708
Menlo Park Fire District	15.0%		$47,025	$123,902	$462,863
County of San Mateo	22.6%		$70,741	$186,391	$696,302
Mid-Peninsula Regional Open Space	1.8%		$5,647	$14,878	$55,581
Bay Area AQMD	0.2%		$627	$1,653	$6,176
County Harbor District	0.3%		$941	$2,480	$9,263
Mosquito Abatement	0.2%		$627	$1,653	$6,176
Sequoia Hospital District	1.4%		$4,392	$11,572	$43,229
County Education	3.4%		$10,666	$28,103	$104,986
Other Parcel Taxes	(3)				
Menlo Park & Rec	0.0134%		$4,204	$11,076	$41,377
Menlo Park Debt Ser.	0.0050%		$1,569	$4,133	$15,439
Total Other Parcel Taxes			**$5,772**	**$15,209**	**$56,816**
Total Menlo Park Revenue			**$41,660**	**$109,768**	**$410,062**

(1) Based on actual Assessed Value for all properties on Independence and Constitution sites for Tax Bill 2003-2004. The AV
(2) Based on information from Finance Department and County Auditor's Office; TAFs in M2 are slightly
(3) These other parcel taxes are restricted for park and recreation activity and debt service and do not flow to the General Fund; however, they are a benefit of the project.
See Appendix A-12 for sources of assumptions and additional notes.
Sources: City of Menlo Park; Brion & Associates.

Table A-2
Sales Tax Revenues by Alternative
Bohannon Fiscal Impact Analysis - 2007

Land Use		**Assumption**	**Alternative Name and Number** Existing Development	Existing Zoning	2007 Proposed Mixed Use Project
Occupied Commercial Development Square Feet					
Office	sqft		88,966	281,364	625,253
R&D	sqft		73,968	-	-
Retail/Community Space	sqft	(5)	-	-	9,500
Restaurant	sqft			-	3,556
Health Club	sqft				69,160
Hotel	rooms				206
Taxable Sales per Sqft or Occupied Room per Year					
Office		$5.48 (1)	$487,534	$1,541,875	$3,426,389
R&D		$9.19 (1)	$679,766		
Hotel Food & Beverage		(2)			$4,531,000
Per Occupied Night		$80 (2)			
Health Club and Spa		25% (2)			$383,000
Total Taxable Sales from Development			$1,167,300	$1,541,875	$8,340,389
Sales Tax from Development		1%	**$11,673**	**$15,419**	**$83,404**
Retail From Employees					
Estimated Total Employment			508	938	2,286
Average Daily Expenditures		$15.04 (3)			
Annual Workdays		240			
Total Taxable Sales from Employees			$1,833,769	$3,386,272	$8,254,383
Minus Emp Sales Captured On Site (hotel only)		25% (4)			($2,063,596)
Net New Tax. Sales from Employees			$1,833,769	$3,386,272	$6,190,787
Sales Tax Revenue from Employees		1%	**$18,338**	**$33,863**	**$61,908**
Total Sales Tax from Development			**$30,011**	**$49,281**	**$145,312**

(1) Based on average taxable sales per sqft for office and R&D (see Appendix A, Table 5) and adjusted for inflation to 2006 $$.
Sale Tax factors is based on data for office buildings and tenants owned in Bohannon Org. in Menlo Park, as of FY 02-03. Office taxable
(2) Based on Marriot data estimated for 2010 - see Table A-10, includes restaurant sales. Only 25% of the gym and spa revenues are assumed to be taxable as membership and charges for services at the spa are not taxable.
(3) Based on 50% average annual expenditures per week ($143, inflated for 2006 to $150.44) for suburban locations times 48 work weeks divided by 240 workdays. (Source: International Council for Shopping Centers "Office Work Retail Spending Patterns" 2004). Adjusted to 2006 dollars.
(4) Assumes that 25% of the employees' retail expenditures would occur at the hotel complex and are included in the estimates above; remainder would occur elsewhere in Menlo Park.
(5) No direct sales tax is assumed for community space, although some may be generated depending on the use and tenants.

See Appendix A-12 for sources of assumptions and additional notes.
Sources: City of Menlo Park; Brion & Associates.

Table A-3
Transient Occupancy Tax by Alternative
Bohannon Fiscal Impact Analysis - 2007

			TOT by Alternative		
Land Use	**Assumption**		**Existing Development**	**Existing Zoning**	**2007 Proposed Mixed Use Project**
New Hotel					
Rooms by Alternative			-	-	206
Average Occupied Rooms Per Night	75%	(1)	-	-	155
Occupied Room Nights Per Year	365		-	-	56,393
Average Room Rate and Revenue Per Yr	$239.00	(1)	$0	$0	$13,477,808
Garage Parking Per Year	$451,000	(1,2)			
Est. Overnight Parking (Subj. to TOT)	50%				$225,500
Annual Revenues Subject to TOT			**$0**	**$0**	**$13,703,308**
TOT Rate & Revenue	**10%**		**$0**	**$0**	**$1,370,331**

(1) Based on revenue estimates from PKF Consulting Hotel Market Study (March 2007)
Marriott's expected room rate is slightly higher at $244 for 2012, as shown in Table A-10.
(2) Overnight parking is subject to TOT at the same rate as the room charge and based on estimates from Marriott RCS,
by Marriot are overnight parking and subject to TOT. Remaining garage fees are from daily visitors.
See Appendix Tables A-10 and A-12 for sources of assumptions and additional notes.

Sources: Brion & Associates.

Table A-4
Real Property Transfer Tax - One Time Revenue
Bohannon Fiscal Impact Analysis - 2007

Land Use	**Assumption**		**Project Alternatives: Existing Development**	**Project Alternatives: Existing Zoning**	**Project Alternatives: 2007 Proposed Mixed Use Project**
Assessed Values					
Independence Office Site		(1)			
Land Area in sqft	308,815				
Current assessed value of land per sqft	$33.09	(2)			
Assessed value of land	$10,218,418				
AV of existing improvements	$4,787,805	(3)			
AV of Independence at transfer	$15,006,223				
Total AV of Transfer			no transfer	$15,006,223	$15,006,223
Turnover or New Ownership					
Tax Rate per $1,000 AV	$0.55	(4)			
Real Transfer Tax Revenue			**$0**	**$8,253**	**$8,253**

(1) Transfer tax applies only to Independence site (there will be no change in ownership of the Constitution site), and only to future development alternatives (no change of ownership under the Existing Development alternative).
(2) Land value is based on Constitution site because its recent ownership restructuring triggered a reassessment and thus is deemed reliable for estimating the current value of Independence; actual land value may be higher at time of future transaction.

(3) Assessed value of existing improvements based on Independence site.
(4) The tax is $1.10 per $1,000 AV, but half goes to San Mateo County and half to the City of Menlo Park.

Sources: City of Menlo Park; Brion & Associates.

Table A-5
City Revenues by Department
Bohannon Fiscal Impact Analysis - 2007

Current Services Revenues	**Proposed FY 06-07 Budget Adopted FY 06-07 Budget**	**Department Assignment**	**Assumed to Offset Costs (1)**
Community Development			
120 - Licenses & Permits	$1,552,000		$1,552,000
170 - Charges For Services	$541,300		$541,300
Total Revenues	**$2,093,300**	**Community Development**	
Library			
130 - Inter Governmental Revenue	$75,000		
170 - Charges For Services	$270,432		$270,432
180 - Donations Total	$500		
Total Revenues	**$345,932**	**Library**	
Community Services			
130 - Inter Governmental Revenue	$761,012		
170 - Charges For Services	$3,194,073		$3,194,073
180 - Donations Total	$10,000		
300 - Other Financing Sources	$700		
Total Revenues	**$3,965,785**	**Community Services**	
Adm. Services			
100 - Taxes	$17,405,000		
110 - Franchise Fees Total	$1,287,000		
120 - Licenses & Permits (Business Licenses)	$1,387,500		
130 - Inter Governmental Revenue	$216,200		
150 - Interest and Rent Income	$2,010,000		
170 - Charges For Services	$61,000		$61,000
300 - Other Financing Sources	$515,520		
Total Revenues	**$22,882,220**	**Administrative Services**	
Public Works			
150 - Interest and Rent Income	$30,000		
170 - Charges For Services	$184,000		$184,000
Total Revenues	**$214,000**	**Public Works**	
Police			
120 - Licenses & Permits	$81,000		$81,000
130 - Inter Governmental Revenue	$88,360		
140 - Fines	$830,000		
170 - Charges For Services	$187,750		$187,750
Total Revenues	**$1,187,110**	**Police**	
All Programs			
100 - Taxes	$17,405,000		
110 - Franchise Fees Total	$1,287,000		
120 - Licenses & Permits	$3,020,500		
130 - Inter Governmental Revenue	$1,140,572		
140 - Fines	$830,000		
150 - Interest and Rent Income	$2,040,000		
170 - Charges For Services	$4,438,555		
180 - Donations Total	$10,500		
300 - Other Financing Sources	$516,220		
Total Revenues	**$30,688,347**	**All Programs**	$6,071,555

(1) These revenues are assumed to offset costs and are not forecast in Table 5 for the project.
Some license and permit revenues are offsetting departmental costs and not forecast.
Business license revenue is forecast from the project and not assumed to offset departmental costs.
From Carol Augustine, City Finance Department, December 2006 via email.
Sources: City of Menlo Park; Brion & Associates.

Table A-6
City Revenues and Expenses by Type/Department
Bohannon Fiscal Impact Analysis - 2007

Item	FY 2006-2007 Adopted Budget
Operating Revenues	
Property Taxes	$10,035,000
Sales Tax	$6,120,000
Transient Occupancy Tax	$1,250,000
Franchise Fees	$1,287,000
Licenses & Permits	$3,020,500
Inter Governmental	$1,140,572
Fines	$830,000
Interest and Rent Income	$2,040,000
Charges For Services	$4,438,555
Transfers and Other	$5,266,720
Total Revenue	**$35,428,347**
City Expenditures by Department	
Administrative Services	$4,380,685
Community Development	$2,332,784
Community Services	$6,036,180
Library	$1,832,445
Police	$10,047,807
Public Works	$4,102,600
Transfers	$3,861,000
Total General Fund	**$32,593,501**
Total GF Without Transfers	**$28,732,501**

Source: City of Menlo Park Finance Department.

Table A-7
Detailed Existing Assessed Value by Parcel
Bohannon Fiscal Impact Analysis - 2007

Parcels by Address	Assessed Parcel #	Land Value	Improvement Value	AV -06-07	Sqft of Land	Land AV per Sqft of Land	Sqft of Leasable Area	Total AV per Sqft of Area
101 Constitution	55-234-240	$2,464,725	$0	$2,464,725			na	na
115 Constitution	55-234-250	$2,594,449	$540,509	$3,134,958			20,949	$150
125-135 Constitution	55-234-260	$5,405,103	$3,967,345	$9,372,448			64,437	$145
155 Constitution	55-234-270	$2,305,180	$5,868,111	$8,173,291			48,288	$169
Total		$12,769,457	$10,375,965	$23,145,422	385,911	$33.09	133,674	$173
100 Independence	55-235-040	$1,261,904	$761,157	$2,023,061			6,500	$311
110 Independence	55-235-050	$151,942		$151,942			na	na
120 Independence	55-235-080	$989,201	$619,739	$1,608,940			15,197	$106
130-150 Independence	55-235-100	$676,429	$2,082,516	$2,758,945			31,680	$87
180-190 Independence	55-135-110	$357,923	$1,324,393	$1,682,316			31,680	$53
Total/Averages		$3,437,399	$4,787,805	$8,225,204	308,815	$11.13	85,057	$97
Total Both Sites/Averages		**$16,206,856**	**$15,163,770**	**$31,370,626**	**694,726**	**$23.33**	**218,731**	**$143**

See Appendix A-12 for sources of assumptions and additional notes.

Sources: County of San Mateo Secured Property Tax statements for 2006-07 provided by Bohannon Organization; Brion & Associates.

Table A-8

Existing Land Use as of November 2006

Bohannon Fiscal Impact Analysis - 2007

Address	Tenant	Total Leasable Area	Office Space Vacant	Office Space Occupied	Office Space Total Office	R&D Space Vacant	R&D Space Occupied
115 Constitution, #1 [1]	Ideal Aerosmith	8,150			0		8,150
115 Constitution, #5	Ideo Product Development	4,376			0		4,376
115 Constitution, #3	Barosense	4,975		4,975	4,975		
115 Constitution, #7	Barosense	3,448		3,448	3,448		
Total 115 Constitution		**20,949**		**8,423**	**8,423**		**12,526**
125 Constitution, 1st Fl	Xtent	14,551		14,551	14,551		
125 Constitution, 2nd Fl	Vacant	5,587	5,587		5,587		
Total 125 Constitution		**20,138**	**5,587**	**14,551**	**20,138**		
135 Constitution	Xtent	589		589	589		
135 Constitution	Vacant	43,710	30,000		30,000	13,710	
Total 135 Constitution		**44,299**	**30,000**	**589**	**30,589**	**13,710**	
155 Constitution	GDS Law Firm	**48,288**		**48,288**	**48,288**		
100 Independence	Vacant	6,500	6,500		6,500		
120 Independence	Tech Shop	15,197					15,197
150 Independence	Ultraclean Holdings	31,680					31,680
190 Independence	Ultraclean Holdings	14,565					14,565
190 Independence	Ultraclean Holdings	17,115		17,115	17,115		
Total 190 Independence		**31,680**		**17,115**	**17,115**		**14,565**
Total Per Site							
Constitution		**133,674**	**35,587**	**71,851**	**107,438**	**13,710**	**12,526**
Independence		**85,057**	**6,500**	**17,115**	**23,615**	**0**	**61,442**
Total Both Sites		**218,731**	**42,087**	**88,966**	**131,053**	**13,710**	**73,968**
Percent Vacant by Site	Constitution	37%					
	Independence	8%					
	Total Both Sites	26%	32%			16%	

[1] Office and Light Assembly Only

Source: 1/23/04-DDB

Land Use/Tenant data for May 13, 2002

Revised by CD+A to account for division in vacant buildings; 2/3/04.

Revised by BDC 11/30/05

Table A-9
Business License Revenue by Land Use
Bohannon Fiscal Impact Analysis - 2007

Land Use	Factors Rev per Emp. or Total Gross Receipts		Employees by Alternative: Existing Development	Employees by Alternative: Existing Zoning	Employees by Alternative: 2007 Proposed Mixed Use Project	Business License Revenue by Alternative (5): Existing Development	Business License Revenue by Alternative (5): Existing Zoning	Business License Revenue by Alternative (5): 2007 Proposed Mixed Use Project	
By Average per Employee:									
	Fee Rev. Per Emp.								
Office	$43.20	(1)	297	938	2,084	$12,811	$40,517	$90,037	
R&D	$32.99	(2)	211	-	-	$6,972	$0	$0	
Community Space	$0.00	(5)	-	-	25	$0	$0	$0	
By Gross Receipts:									
	Gross Receipts								
Hotel	$34,886,000	(3)				$0	$0	$8,000	(4)
Total All Land Uses						**$19,783**	**$40,517**	**$98,037**	

Notes: This information and the method is based on data provided by John McGirr, Menlo Park Finance Department (December 2006)
(1) Average Fee per Employee based on City of Menlo Park data, see Table A-11 for "Office" Use.
(2) Average Fee per Employee based on City of Menlo Park data, see Table A-11 for "R&D" Use.
(3) Hotel revenue includes café, restaurant, health club and other revenues, per Table A-10 from Marriott marketing study.
(4) Menlo Park Annual business license tax calculated based on gross revenues above $2 million as follows:
$750 plus an additional $250 for each additional million or portion thereof up to $30,000,000 gross, and tax not to exceed $8,000.
Analysis assumes hotel would pay the total cap of $8,000 as revenues estimates slightly over $30 million.
(5) No business license tax is assumed for the community space.
Sources: City of Menlo Park; Brion & Associates.

Table A-10
Projected Hotel Revenue by Type
Bohannon Fiscal Impact Analysis - 2007

Items	Calendar Yr. 2012	Tax Status
Number of Rooms	206	
Number of Occupied Rooms	56,393	
Average Occupancy	75%	
Average Daily Rate	$244.42	
ADR pct change vs. LY	5.30%	
RevPAR	$183.31	
RevPAR pct change vs. LY	9.70%	
Average Membership Level	4,198	
Percent of Capacity	92.0%	
Average Initiation Fee	$832	
Average Dues Rate/Month	$222	
	(in $1,000's)	
REVENUE ($000)		
ROOM	$13,783	Subject to TOT
TELEPHONE	$94	No Taxes
GARAGE	$451	Subject to TOT
RESTAURANT	$2,318	Subject to Sales Tax
LOUNGE	$531	Subject to Sales Tax
BANQT SALES (INCL. AV) $	$1,682	Subject to Sales Tax
TOTAL FOOD & BEVERAGE	$4,531	Subject to Sales Tax
CLUBSPORT MBRSHP & INIT	$12,277	No Taxes
CLUBSPORT SPA & RETAIL	$1,532	Subject to Sales Tax
CLUBSPORT PROGRAMMING	$1,727	No Taxes
TOTAL OTHER RENTS, INCOME	$491	No Taxes
TOTAL REVENUE	**$34,886**	

Sources: Marriott; Bohannon Organization; Brion & Associates.

Table A-11
Current City Business License Tax Revenues as of 2006 (1)
Bohannon Fiscal Impact Analysis - 2007

Items	Office Uses	R&D Uses
Total Firms	748	599
Total Employees	9,468	12,038
Total Gross Receipts	$1,206,167,631	$1,511,409,318
Total Fee Revenues	$409,020	$397,123
Averages Per Firm		
Average Employee Count per Firm	13	20
Average Gross Receipts per Firm	$1,612,524	$2,523,221
Average Business Tax Fees per Firm	$547	$663
Averages Per Employee		
Average Gross Receipts per Employee	$127,394	$125,553
Average Business Tax Fees per Employee	$43.20	$32.99

(1) Based on detailed revenue data by type of business from John McGirr, December, 2006. An assignment to office versus R&D was made by Brion & Associates based on industry category.
Sources: City of Menlo Park; Brion & Associates.

Table A-12
Fiscal Model Input Assumptions and Sources
Bohannon Fiscal Impact Analysis - 2007

Table #	Item	Amount	Unit	Notes and Sources
Project Description:				
1	Project Areas, hotel room count, FAR and parking count	See Below	See Below	Project Application with City dated Jan. 07 (Source: Bohannon Organization; DES; Luce Forward; Community Design + Architecture)
Demographics:				
2	Population, 2007	30,920	residents	Source: Projections 2005 ABAG
2	Households, 2007	12,534	households	Source: Projections 2005 ABAG
2	Employment, 2007	26,958	jobs	Source: Projections 2005 ABAG
2	Avg Household Income, 2007	$148,800	annual	Source: Projections 2005 ABAG
Employee Loads by Land Use:				
3	Office	300	sqft per emp.	Typical average densities used in planning and traffic analysis (Source: ITE Manual 1997; EnviroTrans Solutions; Brion & Associates.)
3	R&D	350	sqft per emp.	see above
3	Community Space	400	sqft per emp.	see above
3	Restaurant	89	sqft per emp.	Estimated (Based data from other Marriott Hotels; Brion & Associates)
3	Health Club	1,064	sqft per emp.	Estimated (Based data from other Marriott Hotels; Brion & Associates)
3	Hotel	0.35	emp. per room	Estimated (Based data from other Marriott Hotels; Brion & Associates)
Market Values by Land Use:				
4	Office, Existing	$143	per sqft, average of both sites	Based on actual Assessed Value for all properties on Independence and Constitution sites for Tax Bill 2003-2004. See Table A-7 for detail by site. The average value per sqft is calculated for both sites; see Table A-6. (Source: Bohannon)
4	R&D, Existing	$143	per sqft, average of both sites	Based on actual Assessed Value for all properties on Independence and Constitution sites for Tax Bill 2003-2004. See Table A-7 for detail by site. The average value per sqft is calculated for both sites; see Table A-6. (Source: Bohannon)
4	Office, New	$264	per sqft, wt. average of both sites	For Independence site, assumes land, building, and tenant improvement value and presumes ownership restructuring by the Bohannon Org, which triggers new assessment to market value. For Constitution site, land is excluded. (Source: Bohannon Organization; Brion & Associates)
4	Community Space	$150	per sqft	Based on typical retail assessed values.
4	Restaurant, New	$0	per sqft	Included in Hotel Value.
4	Health Club, New	$0	per sqft	Included in Hotel Value.
4	Hotel, New	$325,000	per room	Based on information from PKF Consulting; retail and health club values are included in average hotel room value.
4	Structured Parking, New	$25,000	per space	Bohannon Organization; Brion & Associates
Fiscal Budget Amounts:				
5,6	General Fund Revenues and Expenses			(Source: City of Menlo Park Budget Report, 2006-07)
General Fund Revenue Impacts:				
5, A-1	Property Tax			(See Property Tax Revenues below)
5, A-2	Sales Tax			(See Sales Tax Revenues below)
5, A-3	Transient Occupancy			(See Transient Occupancy Tax Revenues below)
5	Franchise Fees	$25.78	per employee	Based on City Finance Department data for 1997-98 usage, businesses contributed 54% and residential customers contributed 46% of total franchise fee revenues. Analysis assumes 54% of franchise fees are from employment uses: this figure is then divided by the current number of city employees.
5	Business Licenses	(see Table A-9 and A-11)		Based on estimates of average revenue per employee for office space in the City and estimates of gross revenues for the hotel complex. (Source: City of Menlo Park Finance Dept., Brion & Associates)
5	Fines	$15.39	per employee	Assumes 50% are from employment uses and 50% from residential uses based on actual recent data. (Source: City of Menlo Park Finance Department; Brion & Associates)
5	Use of Money & Property			Not forecasted

Table A-12
Fiscal Model Input Assumptions and Sources
Bohannon Fiscal Impact Analysis - 2007

Table #	Item	Amount	Unit	Notes and Sources
5, A-4	Charges for Services			Not forecasted but assumed to offset departmental costs in General Fund Expenditure Analysis (Sources: City of Menlo Park; Brion & Associates)
General Fund Expenditure Impacts:				
	Employment Use Percentages			
6	Administration Services	25%	of net variable cost	Approved by City Manager and Finance Department. (Source: City of Menlo Park's Fiscal Impact Manual and Report dated 2.5.02, with the exception of Community Service. The City's report assumes 40% of this department is employment driven; we have used 25%; Brion & Associates)
6	Community Development	25%	of net cost	Same as Above
6	Community Services	25%	of net cost	Same as Above
6	Library	10%	of net cost	Same as Above
6	Police	25%	of net cost	Same as Above
6	Public Works	25%	of net cost	Same as Above
7	Fiscal Results	(see Table 5 and 6)		Brion & Associates.
Construction Costs and Employment:				
8	Construction Unit Costs and Other Project Construction Assumptions			Bohannon Organization for office and parking; PKF Consulting for Hotel.
8	Avg. Commercial Construction Salary	$77,168	per year per person	California EDD data for San Mateo County, 2005, which is the most current data available.
Impact Fee Revenues & Project Infrastructure Costs:				Based on net new development on sites
9	Water and Fire Facilities Charges			City of Menlo Park Master Fee Schedule, Rev. July 1 2006.
9	Sewer Fees			West Bay Sanitary District; updated Jan. 2007.
9	Traffic Fees			Menlo Park Transportation Department, Chip Taylor, Dec. 2006
9	Below Market Rate Housing Information			City of Menlo Park Planning Department website; rates as of Aug. 2006.
9	School Impact Fees			Sequoia Union High School District as of 12.14.06
Property Tax Assessment:				
A-1	Assessed Value, Existing Development			Based on actual Assessed Value for all properties on Independence and Constitution sites for Tax Bill 2006-2007. (Sources: Bohannon and San Mateo County Recorder)
A-1	Assessed Value, New Development	See Table 4		Based on market value estimates. (See Market Values by Land Use, new, above)
Property Tax Revenues:				
A-1	Property Tax Rate	1.0%	of AV	(Source: State of California)
	Distribution of 1% Property Tax:			
A-1	City of Menlo Park - GF	11.4%	of Property Tax	Based on tax rate area for the M-2 District and individual parcel numbers for proposed sites (Sources: Finance Department and County of San Mateo Auditor's Office)
A-1	County of San Mateo	22.6%	of Property Tax	see above
A-1	Elementary Schools	22.5%	of Property Tax	see above
A-1	Menlo Park Fire District	15.0%	of Property Tax	see above
A-1	Other Agencies	28.5%	of Property Tax	see above
	Other Parcel Taxes:			
A-1	Menlo Park Park & Rec	0.0134%	of Property Tax	For park and recreation not flowing to the General Fund; based on Independence and Constitution sites for Tax Bill 2006-2007 (Source: County of San Mateo Auditor's Office)
A-1	Menlo Park Park Debt Ser.	0.0050%	of Property Tax	For park and recreation not flowing to the General Fund; based on Independence and Constitution sites for Tax Bill

Table A-12
Fiscal Model Input Assumptions and Sources
Bohannon Fiscal Impact Analysis - 2007

Table #	Item	Amount	Unit	Notes and Sources
Sales Tax Revenues:				
	Taxable Sales:			
A-2	Office	$5.48	per sqft	Based on data for office buildings and tenants owned in Bohannon Org. in Menlo Park, as of FY 02-03 adjusted for inflation (See Sales Tax Analysis; See Appendix B-2005 Fiscal Report) (Sources: City of Menlo Park; Brion & Associates)
A-2	R&D	$9.19	per sqft	Based on data for office buildings and tenants owned in Bohannon Org. in Menlo Park, as of FY 02-03 adjusted for inflation (See Sales Tax Analysis; See Appendix B-2005 Fiscal Report) (Sources: City of Menlo Park; Brion & Associates)
A-2	Hotel room food and beverage	$80	per occupied room night	Based on estimated revenues from Marriott (Dec. 2006).
A-2	Health Club & Spa	25%	of total gym and spa revenues are taxable.	Based on estimated revenues from Marriott (Dec. 2006).
A-2	Sales Tax from Existing Development	$11,673	per year	Based on data for office buildings and tenants owned in Bohannon Org. in Menlo Park, as of FY 02-03 adjusted for inflation (See Sales Tax Analysis; See Appendix B-2005 Fiscal Report) (Sources: City of Menlo Park; Brion
A-2	Sales Tax from New Development	1%	of Taxable Sales	Estimated (Source: State Board of Equalization, California)
	Retail From Employees			
A-2	Average Daily Expenditures	$15.04	per day	Based on 50% average annual expenditures per week ($143) for suburban locations times 48 work weeks divided by 240 workdays and adjusted for inflation (Source: International Council for Shopping Centers "Office Work Retail Spending Patterns" 2004)
A-2	Minus Restaurant Sales	25%	of Restaurant Sales	Assumes that 25% of the restaurant business would come from project employees and hotel visitors (Source: Brion and Associates)
Transient Occupancy Tax Revenues:				
A-3	Average Occupancy	75%	of rooms per night	Based on estimated revenues from Marriott (Dec. 2006) and independent market hotel market study by PKF Consulting for the subject project (March 2007). Stablized rates as of 2012.
A-3	Average Room Rate & Room Revenue	$239	per room night	Based on estimated revenues from Marriott (Dec. 2006) and independent market hotel market study by PKF Consulting for the subject project (March 2007). Stablized rates as of 2012.
A-3	TOT Rate	10.0%		Source: City of Menlo Park
Other:				
A-4	Transfer Tax Rates	$0.55		Source: City of Menlo Park; and County of San Mateo Auditor's Office.
A-5	Distribution of Charges for Services Revenue to City Departments			Finance Department, Menlo Park.
A-6	Detailed City Revenues			Finance Department, Menlo Park.
A-7	Current Assessed Value	$31,370,626		Based on actual Assessed Value for all properties on Independence and Constitution sites for Tax Bill 2006-2007. (Sources: Bohannon and San Mateo County Recorder)
A-8	Existing Uses and Vacant Space			Bohannon Organization; Community Design+Architecture.
A-9	Business License Fee Estimates			This information and the method is based on data provided by John McGirr, Menlo Park Finance Department (December 2006) and as analyzed by Brion & Associates.
A-10	Hotel Revenue Estimates			Bohannon Organization; Marriott.
A-11	Business License Gross Revenues per Employee			This information and the method is based on data provided by John McGirr, Menlo Park Finance Department (December 2006) and as analyzed by Brion & Associates.

Source: Brion & Associates.

APPENDIX B: SUPPORTING BACKGROUND DATA FOR HOTEL MARKET PREPARED BY PKF CONSULTING

PKF CONSULTING

Proposed Renaissance Club Sport Hotel Menlo Park, California

Prepared For:
Mr. David D. Bohannon, II
President
Bohannon Development Company
Sixty 31st Avenue
San Mateo, California 94403

Prepared By:
PKF Consulting
San Francisco, California

Date of the Report:
June 15, 2007

90530

PKF CONSULTING
425 California Street
Suite 1650
San Francisco, CA 94104
Telephone (415) 421-5378
Telefax (415) 956-7708

June 15, 2007

Mr. David D. Bohannon, II
President
Bohannon Development Company
Sixty 31st Avenue
San Mateo, California 94403

Re: Proposed Renaissance Club Sports – Menlo Park, California

Dear Mr. Bohannon:

In accordance with your request, we have conducted a study of the potential market demand for a proposed 206-room Renaissance Club Sport Hotel (the "subject property") to be located in Menlo Park, San Mateo County, California. Pursuant to our engagement, we have prepared this report codifying our findings. This report has been prepared for your internal use in determining the viability of the subject property, as well as for presentation to other parties involved in the development and operation of the subject property.

The conclusions set forth in this report are based on an analysis of the existing and potential future supply and demand for the competitive lodging market, as of the completion of our fieldwork in February 2006. As in all studies of this type, the estimated results are based on competent and efficient management and presume no significant change in the status of the competitive lodging market from that as set forth in this report. The terms of our engagement are such that we have no obligation to revise our conclusions to reflect events or conditions that occur subsequent to the date of completion of our fieldwork. However, we are available to discuss the necessity for revisions in view of changes in the economy or market factors impacting the competitive lodging market.

Since the future performance of the subject property is based on estimates and assumptions that are subject to uncertainty and variation, we do not present them as results that will actually be achieved. However, our analysis has been conscientiously prepared on the basis of information obtained during the course of this assignment and our experience in the industry. This letter report is subject to the Certification and Statement of Assumptions and Limiting Conditions presented in the addenda.

It should be noted that this study does not address the economic feasibility of the proposed hotel. Such a study would require the additional analysis of the potential cash flows of the subject and capital investment required to develop the hotel together with a financing plan. If desired, we would be pleased to assist you in preparing such an analysis.

It has been a pleasure to work with you on this interesting project. If we can be of any further assistance in the interpretation of our findings, please feel free to contact us.

Yours sincerely,

PKF Consulting

Thomas E Callahan

By Thomas E. Callahan, CPA, CRE, FRICS, MAI
Chief Executive Officer - West

Kenneth Kuchman

By Kenneth Kuchman
Vice President

ADDENDA

A. INTRODUCTION

1. Overview of the Market Study

PKF Consulting has been retained by the Bohannon Development Company to perform a study of the potential market demand for a proposed Renaissance Club Sport hotel to be located as part of a new mixed use development at the southeast quadrant of the intersection of Highway 101 and Marsh Road in the city of Menlo Park, San Mateo County, California.

2. Methodology

In conducting the study of the potential market demand, we:

- Visited the selected site for the subject property and assessed the impact of the site's accessibility, visibility, and location relative to demand generators on the marketability and likely market mix of the subject property;

- Researched and analyzed current economic and demographic trends to determine their impact on future lodging demand in the market;

- Researched the lodging supply in Menlo Park, with a particular focus on the impact that the subject property would have on these hotels;

- Reviewed the historical performance of the competitive lodging market;

- Estimated the anticipated growth in supply and demand for lodging accommodations in the local market area;

- Prepared a forecast of the future lodging demand for the competitive lodging market;

- Reviewed the development program for the subject property based on its appropriateness to serve the expected future lodging needs of the local market area; and,

- Prepared:
    1. A forecast of the projected market penetration;
    2. A summary of resulting occupancy levels;
    3. An estimate of the average daily room rate ("ADR") for the subject property;
    4. An estimate of the transient occupancy taxes ("TOT"); and,
    5. An estimate of the impact of the subject property on existing hotels in Menlo Park.

Several sources were used in compiling the background information and preparing the analyses contained in this report. These sources include PKF Consulting's *Trends in the Hotel Industry*, data gathered through direct interviews with managers of competitive properties and representatives of local businesses, data provided by sources in the lodging chains with which the competitive properties are affiliated, and data from various local government agencies.

3. Summary of Findings and Conclusions

A summary of our findings and conclusions are presented in the following text.

- The site location for the hotel is attractive for hotel development due its proximity to Highway 101 and surrounding businesses and residential areas in Redwood City, Menlo Park, Palo Alto, Woodside, and Atherton;

- The site is located with high visibility from Highway 101 and easy access via the Marsh Road exit from Highway 101;

- The proposed hotel will be the one of the newest additions to the Menlo Park lodging market and will offer high-quality accommodations as compared to most existing properties in Menlo Park; and,

- The proposed hotel will differentiate itself from competitive hotel properties by offering all new construction, an upscale hotel product, a full-service fitness center, and an orientation to both the corporate and leisure markets combined.

Based on the preceding work program, we have made a determination of the market viability for the subject property. It is assumed that the construction of the subject could be commenced on or before January 1, 2008, leading to a likely opening date after an 18-month construction period of July 1, 2009.

Our analysis of the local hotel market, coupled with our knowledge of the operating characteristics of the Renaissance Club Sport brand, leads us to project that a 206-room Renaissance Club Sport located on the indicated site in Menlo Park could achieve could achieve a stabilized occupancy level of 75.0 percent by 2013, its third period of operation after opening in July 2009. Further, we estimate that the subject property would achieve an average daily room rate ("ADR") of roundly $200.00, stated in current value 2007 dollars, which we project will increase to an achieved ADR of $213.00 upon opening of the subject property.

The results of our research and analysis are summarized in the following report. Presented in the table on the following page is our forecast of the occupancy and average room rate for the subject property over its first five periods of operation, assuming availability for occupancy starting July 1, 2009. It should be noted that the first period of operation is a partial year July 1, 2009 to December 31, 2009.

As can be noted in the table:

- The subject property is expected to stabilize at a strong level of occupancy of 75.0 percent as of its third year of operation;
- A three-year stabilization period is a strong ramp-up period experienced only by better hotel properties; and,
- The subject property, if open today, would attain an average daily room rate ("ADR") of $200, placing it as one of the leading hotels in the market area with regard to ADR.

Proposed Renaissance Club Sport Hotel
Projected Performance

Year	Estimated ADR	Market Growth	Achieved ADR [3]	Percent Change	Occupancy	RevPAR	Percent Change
2007	$200.00[1]	-	-	-	-	-	-
2008	$210.00	5.0%	-	-		-	-
2009[2]	$218.00	4.0%	$213.00	(2.5%)	62.0%	$132.06	-
2010	$225.00	3.0%	$225.00	5.5%	72.0%	$162.00	22.7%
2011	$232.00	3.0%	$232.00	3.0%	75.0%	$174.00	7.4%
2012	$239.00	3.0%	$239.00	3.0%	75.0%	$179.25	3.0%
2013	$246.00	3.0%	$246.00	3.0%	75.0%	$184.50	3.0%

[1] ADR if the Subject were open in 2007
[2] Reflects the July 1, 2009 opening of the subject property
[3] "Achieved ADR" is the ADR expected to be obtained at the hotel after any discounting, as differentiated from "Estimated ADR" which is shown in the first column of the table

Source: **PKF Consulting**

It should be noted that we have reviewed the estimated operating assumptions for the subject property provided by Marriott International to Bohannon Development. In our opinion, our analysis indicates that the conclusions reached by Marriott are achievable, and therefore would be reasonable. Further, the hotel operating revenue and operating expense items projected in the estimated financial statements prepared by Marriott International also appear reasonable, and we would concur with those estimates. We have utilized Marriott's total revenue projections in our estimate of economic benefits of the subject property to the community as presented at the conclusion of this report.

B. DESCRIPTION OF THE PROPOSED RENAISSANCE CLUBSPORT HOTEL

1. The Overall Bohannon Project

The proposed RCS is part of a new mixed use office, hotel, and fitness center development in Menlo Park that will include three office buildings, three parking structures, surface parking, walkways, extensive landscaping, and the new hotel, fitness center, and spa. A color site map and table summarizing the overall development and project data is found on page 8 of this report.

The Independence Drive site, facing both Highway 101 and Independence Drive, comprising the subject property will include the 206-room hotel, fitness center, and spa, a 150,000 square foot, six-floor office building, and a four level parking garage, housing 850 automobiles.

The Constitution Drive Site, facing both Constitution Drive and the waterfront, will feature two office buildings each with 272,363 square feet and nine floors, and two parking garages, one of five levels, housing 535 automobiles and the other also of five levels, housing 861 automobiles.

The office development will be supportive of the hotel/fitness center as up to 2,300 employees are expected to work in the new development upon completion. Further, the hotel will also serve travelers to the various companies to be located in the new office development. Utilization of guest rooms, dining facilities, meeting space, and the fitness center will be in demand by employees and visitors to the new office development, as well as additional utilization generated for these facilities from elsewhere in the Menlo Park community.

2. Site Location, Access, and Visibility

The site for the subject property, which comprises one of the three office buildings, one of the three parking structures, and the hotel and fitness center is located at the southeast corner of the intersection of State Highway 101 and Marsh Road. The existing developments on this Marsh Road parcel would be demolished to allow construction of the subject property, the separate 150,000 square foot office building, and the separate parking structure. The site has excellent visibility and accessibility to passing traffic in both directions along Highway 101. As indicated, the two additional office buildings and two additional parking structures are proposed for development facing Bayfront Expressway.

This site is excellent for hotel development due to the exposure of the property to passing traffic along Highway 101 and the ease of accessibility from the highway for hotel guests. Similarly, the site is also accessible via the Bayfront Expressway from the Dumbarton Bridge, connecting the site to the East Bay; however, most demand for the hotel is projected to be related to a Highway 101 orientation.

Map Indicating the Location of the Subject Property in Menlo Park

Of the two sites, the subject site at Independence Drive site at Marsh Road and Highway 101 is preferable for hotel development due to ease of accessibility and high visibility to potential hotel guests, with the Constitution Drive site preferable for office development in a slightly less-accessible location.

3. Proposed Property Design and Configuration

The proposed Renaissance Club Sport is a new and emerging brand within the full-service hotel segment in the United States. The concept takes the closely related construction and operating characteristics of a full-service hotel, a full-service fitness facility, and a spa, and combines these aspects into one, achieving both construction and operational cost advantages, while at the same time, creating a new, fresh product.

In particular, the subject property will be located on a highly visible and easily accessible site, and like the new Four Seasons Hotel, will become one of the most high profile area hotels with regard to such visibility. The property will be all-new construction and will feature an approximate 70,000 square foot upscale fitness center, spa, and swimming pools, along with 206 hotel guest rooms, as well as meeting rooms, a restaurant, a cafe, and other hotel services.

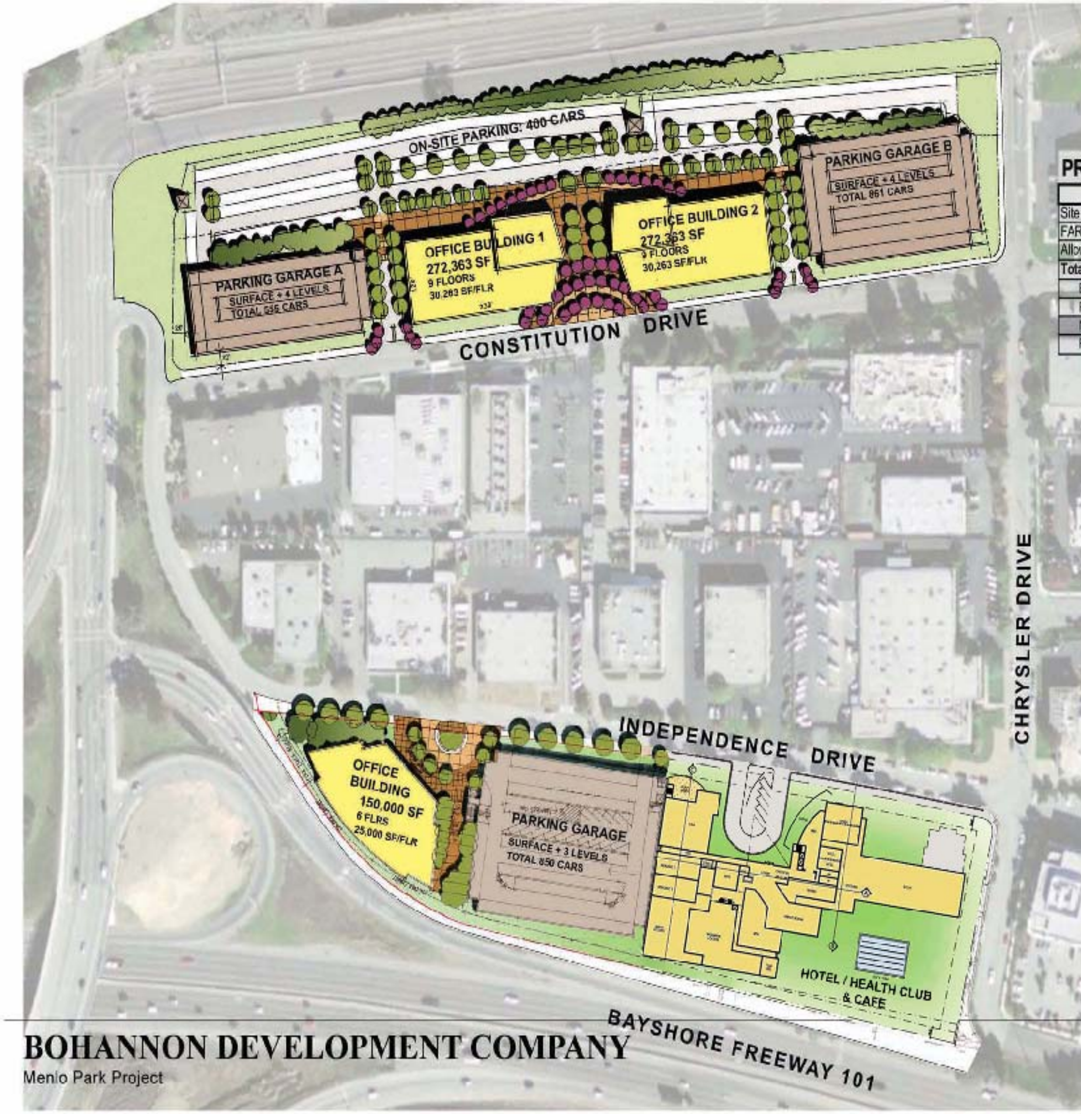
According to our discussions with both the developer and the management company for the subject property, the hotel, fitness center, and spa will be very attractive and will present an upscale appearance. Upon arrival, guests will be welcomed into an expansive atrium and lobby, which for the hub of activity for both hotel guests and members of the ClubSport fitness center. To one side will be located a uniquely themed full-service restaurant and cafe, catering to hotel guests, families and club members, who will enjoy freshly prepared meals from the open kitchen.

The adjacent veranda will provide a panoramic view of the resort-style swimming pool area, designed to create a tropical resort atmosphere for members and guests. A spa and salon will also be accessed from the lobby, where a complete menu of massage therapy, body treatments, facials, hair and nail services will be offered. The ClubSport fitness center will offer state-of-the-art cardio, circuit and free weight equipment, along with a basketball gymnasium, group fitness studios, and racquetball sport courts. The facilities at the ClubSport are designed to rival those found in premier sports clubs across the United States.

The hotel registration and concierge desks lead to well appointed, spacious guest rooms with special amenities for both business and leisure travelers. Conference and meeting room space, plus a full-service business center are available for use by the hotel and corporate clients, as well as club members.

View Looking Northwest from Chrysler Drive at Independence Drive

View Looking Northwest Along Independence Drive



PROJECT DATA

	Independence		Constitution	
Site area	308,815		385,911	
FAR	1.0		1.0	
Allowable s.f.	308,815		385,911	
Total Allowable s.f.	694,726			
Bldg Area	150,000	1 bldg	544,726	2 bldgs
Footprint	25,000		30,263	
No. of Floors	6 story	94' fin first flr. to parapet	9 story	139' fin first flr. to parapet
Parking required	850 stalls		1,816 stalls	

0 50 100 200

SITE PLAN STUDY 1

11.30.2006 DAHLIN GROUP ARCHITECTURE PLANNING

DES ARCHITECTS ENGINEERS

C. AREA OVERVIEW

1. The San Francisco Bay Area

The San Francisco Bay Area consists of San Francisco, Alameda, Contra Costa, Marin, San Mateo, Napa, Sonoma, Solano, and Santa Clara Counties, and includes the principal cities of San Francisco, Oakland, and San Jose. The Bay Area is headquarters to 26 of the nation's leading Fortune 500 companies and continues to be acclaimed for its wealth of technology companies, world-class universities (Stanford and Berkeley), and cultural and recreational attractions. In 2006, the median household effective buying income in the Bay Area was approximately $54,500, compared to $42,900 for the state. The area's exceptionally high-income levels tend to partially compensate for the comparably high cost of living and cost of doing business.

Silicon Valley is known for the dense concentration of electronics and computer companies located in the area and has become the center of the world's technology industry. Internet and technology firms such as Apple Computers, Cisco Systems, Google, Hewlett Packard, IBM, Intel, Microsoft, Oracle, and Yahoo! are either headquartered or have a strong presence in the area, helping to spawn supporting companies such as law, financial services, and consulting firms. Centered primarily in Santa Clara County, Silicon Valley has positively impacted the entire Bay Area driving demand for both office space and hotel room nights.

The decline in the national economy experienced from late 2001 to 2003 had a substantial impact on the economy of the Bay Area as well. Technology and tourism, the Bay Area's most prominent industries, suffered the most significant setbacks. Since 2004, the Bay Area economy has experienced strong growth, and there are currently positive indicators that the Silicon Valley technology industry, the Bay Area's major trading partners in Asia, and the overall national economy will continue to support additional growth in the San Francisco Bay Area going forward.

Technology spending has increased over the past several years, and local technology companies reported strong earnings in 2004, 2005, 2006, and the first quarter of 2007. The hotel market has benefited from the increase in business activity, and occupancies have exceeded prior year levels for the past two years. In the long-term, the Bay Area will continue to be one of the state's most affluent metro areas and an international business center, continuing to support the local economy.

2. Menlo Park and Palo Alto

Menlo Park is an upscale city of approximately 31,000 residents. The median family income in 2006 is $148,800 annually. More broadly, Menlo Park, Stanford University, and neighboring Palo Alto are nationally recognized as locational centers for cutting edge technology, technology research, and support services.

Menlo Park is the location of a Boise Cascade headquarters; Western Region Geography office of the United States Geological Survey; Sand Hill Road, the location of many Silicon Valley venture capital firms; SRI International (formerly Stanford Research Institute); the corporate offices and show gardens of Sunset Magazine; and, home to Geron Corporation, a biotechnology company focusing on telomere and stem cell research.

Palo Alto serves as home to Stanford University, Hewlett-Packard, New York Stock Exchange western offices, Xerox Palo Alto Research Center, Sun Microsystems, the Wall Street Journal regional offices, Roche Bioscience, Genencor, and other major employers, encompassing a highly trained and educated workforce. Palo Alto is also home to a number of venture capital firms.

In addition, Menlo Park, Palo Alto, and nearby Woodside and Atherton have attractive residential and retail areas, including the famous Stanford Shopping Center and University Avenue area in Palo Alto, a boulevard known for upscale shops and restaurants.

3. Business District Review

The area surrounding the subject property is generally characterized by low-rise office buildings, light industrial buildings, and some vacant land for development. A number of low-rise office structures and light industrial buildings characterize the areas to the east and to the south, including tenants such as: Perkins Coie, LLP, UltraClean Technology, TechShop, L-3 Communications, and Gunderson Dettman. Further, Bohannon Development Company has recently leased 140,000 square feet of office space to Intuit on Marsh Road, just west of Highway 101. The current developments surrounding the subject property are indicated in the following table.

Land Uses Surrounding the Subject Property

North	Marsh Road, office and light industrial developments, Redwood City
East	Constitution Drive, Bayfront Expressway, offices, San Francisco Bay, Highway 84, Dumbarton Bridge
South	Chrysler Drive, office and light industrial developments, Palo Alto
West	Highway 101, other office developments, residential areas towards Interstate 280, central portion of the City of Menlo Park

In addition to the uses immediately surrounding the subject property, the site is easily accessible to those both residing and working in the Menlo Park area, and the most recent traffic counts for Highway 101 at Marsh Road are approximately 190,000 vehicles daily. Marsh Road to the east leads to the Bayfront Expressway and the Dumbarton Bridge (Highway 84), connecting Menlo Park via the bridge to the East Bay and the numerous cities located there.

As indicated, going forward, the business district surrounding the subject site will be enhanced as the subject property is part of a new mixed use development proposed by Bohannon Development Company to include three office buildings, three parking structures, and the hotel/fitness center/spa. The subject property would comprise a new and attractive development and would in turn benefit from a highly visible and easily accessible location. Overall, the characteristics of the business district surrounding the subject property are supportive of a hotel development.

4. Summary of Area Review

Going forward, as local firms continue to expand in the area, the City of Menlo Park will continue to attract new residents and new companies. The increasing demand for location to the area as a vibrant part of the overall San Francisco Bay Area will mean growth in both the commercial and retail sectors. As such, after review of various market factors, we are of the opinion that the area will also continue to generate demand for the local lodging market for the foreseeable future as well.

Further, the three new office buildings which are part of the proposed Bohannon development offer synergies and support for the subject property with regard to demand for hotel accommodations from the future users and visitors to the tenants in these structures.

D. SILICON VALLEY HOTEL MARKET OVERVIEW

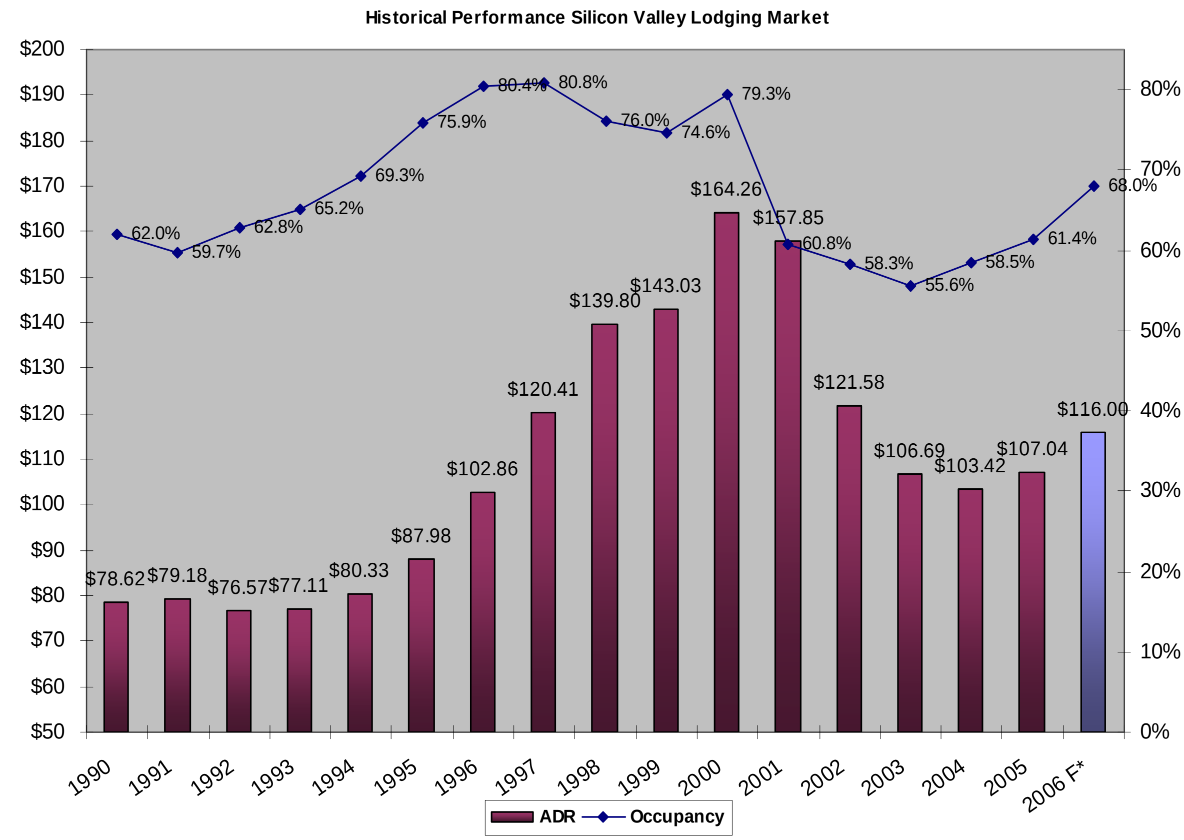
1. Introduction

The Silicon Valley lodging market incorporates Santa Clara County, as well as areas extending north along Highway 101 in southern San Mateo County and along Interstate 880 in southern Alameda County. Important cities within the market include Redwood City, Menlo Park, Palo Alto, Mountain View, Santa Clara, Sunnyvale, San Jose, and Fremont. Lodging facilities represented in the sample include first class/convention hotels (i.e. the Fairmont San Jose and the Hyatt Santa Clara), luxury hotels, (i.e. Four Seasons Palo Alto), full-service hotels (i.e. the Westin Palo Alto), boutique hotels, (i.e. the Stanford Park Hotel Menlo Park), focused-service hotels (i.e. the Hilton Garden Inn Cupertino and the Courtyard by Marriott Palo Alto), extended stay hotels (i.e. Residence Inn by Marriott properties found throughout the Silicon Valley area), and numerous limited-service hotels and motels.

Given the employment characteristics and wealth of technology companies located throughout Silicon Valley, the commercial market segment is the primary source of demand in the area, with the leisure and group segments generating the balance.

2. Historical Performance of the Silicon Valley Lodging Market

The following graph summarizes the historical performance of the entire Silicon Valley lodging market from 1990 to 2006, a composite summary of all lodging properties in the regional market area, ranging from motels to upscale luxury properties.



Source: **PKF Consulting**

As noted, after a period of occupancy levels in the 60 percent range and nominal average daily rate ("ADR") growth in the early 90s, the Silicon Valley hotel market prospered from 1995 to 2000, reflecting a sharp increase in demand associated with the prominence of the technology industry and the overall strength of the Bay Area economy. During this time, hotels were able to significantly increase room rates as occupancy soared and demand was almost entirely comprised of commercial travelers, who are typically less price-sensitive. This is reflected in a compound annual growth rate in the ADR of 13.3 percent between 1995 and 2000.

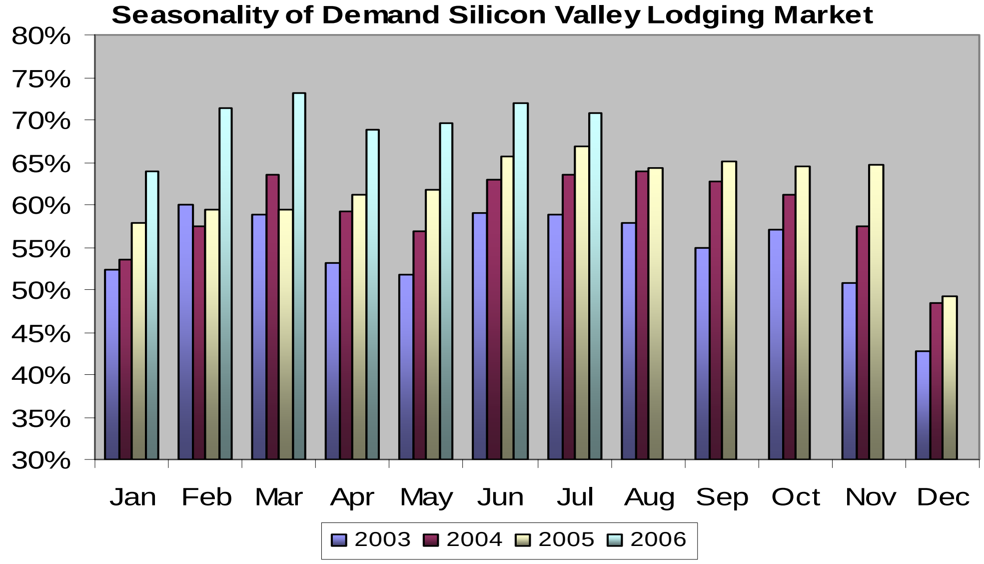
In 2001, the economic downturn significantly impacted Silicon Valley, as the technology industry suffered significant setbacks. Bankruptcies, mass layoffs, corporate downsizing, and tighter travel budgets caused a sharp decline in hotel occupancies, which fell to 60.8 percent. Exacerbated by the terrorist attacks on 9/11 and prolonged by the war with Iraq, hotel occupancies continued to decline in 2002 and reached a low of 55.6 percent in 2003.

Low occupancies placed downward pressure on ADR as hotel managers aggressively discounted room rates in an effort to fill rooms, and this trend continued until 2004. The bulk of this discounting occurred through Internet distribution channels, such as Expedia, Priceline, and Travelocity, as hotel managers saw the percentage of total room nights booked through the Internet increase significantly year after year. Additionally, the decline in corporate travel resulted in hotels receiving a larger share of demand from more value-oriented groups and leisure travelers. As a result, ADR declined to $103.42 in 2004, 37 percent lower than levels achieved in 2000.

Beginning in 2004, occupancy for the Silicon Valley hotel market increased for the first time since 2000. This increase in demand was a result of the local economic recovery, characterized by employment growth, positive office space absorption, and an increase in technology spending. This positive trend continued through year-end 2005 as occupancy reached 61.4 percent and ADR increased to $107.04. Stronger growth in both occupancy and ADR occurred in 2006, resulting in an occupancy of 68.0 percent at an ADR of $116, which is up 6.6 points in occupancy and up 10.8 percent ahead or $8.96 in ADR ahead of year-end 2005 levels. It should be noted that on an individual basis, hotels in the Silicon Valley market area achieved ADR’s ranging from a low of approximately $50 to a high of nearly $300 in 2006.

3. Seasonality of Demand

The graph on the following page summarizes the occupancy by month for the Silicon Valley lodging market over the past three years, as well as the first seven months of 2006.



Source: **PKF Consulting**

As can be noted, due to the nature of the demand, which is primarily commercial, seasonality of demand is not pronounced. The months of November, December, and January are typically slower as travel declines during the winter months and holiday season.

E. COMPETITIVE HOTEL MARKET ANALYSIS FOR THE PROPOSED RENAISSANCE CLUB SPORTS HOTEL

1. Competitive Menlo Park Area Hotels

Specifically, given the expected quality level of the subject property, demand for the subject property will be from those travelers desiring more upscale and full service hotel accommodations, as differentiated from limited service and motel accommodations.

The hotel market area for the subject property is defined as that corridor stretching from Redwood City to the north to Palo Alto to the south, and including those properties located along Highway 101, the El Camino Real, and in downtown Palo Alto.

Based on our research, we have identified seven properties as representing the competitive market for the subject property. The total number of rooms in the competitive market is 1,570. Competitive properties were identified on the basis of location, room product offered, rate structure, and overall quality. These hotels are all full-service hotels and exclude limited service hotels and motels.

The seven hotels include the Stanford Park Hotel, Crowne Plaza, Westin, Sheraton, Garden Court, Four Seasons, and Sofitel. The table on the following page provides a summary of the competitive properties, and is followed by a map indicating the locations of the properties.

Competitive Lodging Market		
Property	**Location**	**Rooms**
Stanford Park Hotel	Menlo Park – El Camino Real	163
Crowne Plaza	Palo Alto – El Camino Real	194
Westin	Palo Alto – El Camino Real	184
Sheraton	Palo Alto – El Camino Real	346
Garden Court	Palo Alto – University Avenue	62
Four Seasons	East Palo Alto at Highway 101	200
Sofitel	Redwood City at Highway 101	421
Total	**-**	**1,570**

2. Demand Generators for the Competitive Market

Demand for hotel accommodations in the Menlo Park area is primarily generated from the commercial segment (approximately 67.0 percent), with the group segment at 21.0 percent and leisure demand generating the balance (12.0 percent). The following is a list of the major demand generators for the market area, indicating the primary clientele for the competitive market:

- Managers, sales representatives, and other business related travelers visiting local companies, technology plants, and research laboratories;
- Government and university travelers to Stanford University, Menlo College, and various high technology firms;
- Motorists traveling along Highway 101;
- Families visiting educational institutions such as Stanford University, Menlo College, and St. Patrick's Seminary;
- Patients and families to local medical facilities;
- Group travelers to regional association conferences and meetings, and,
- Travelers visiting local residences.

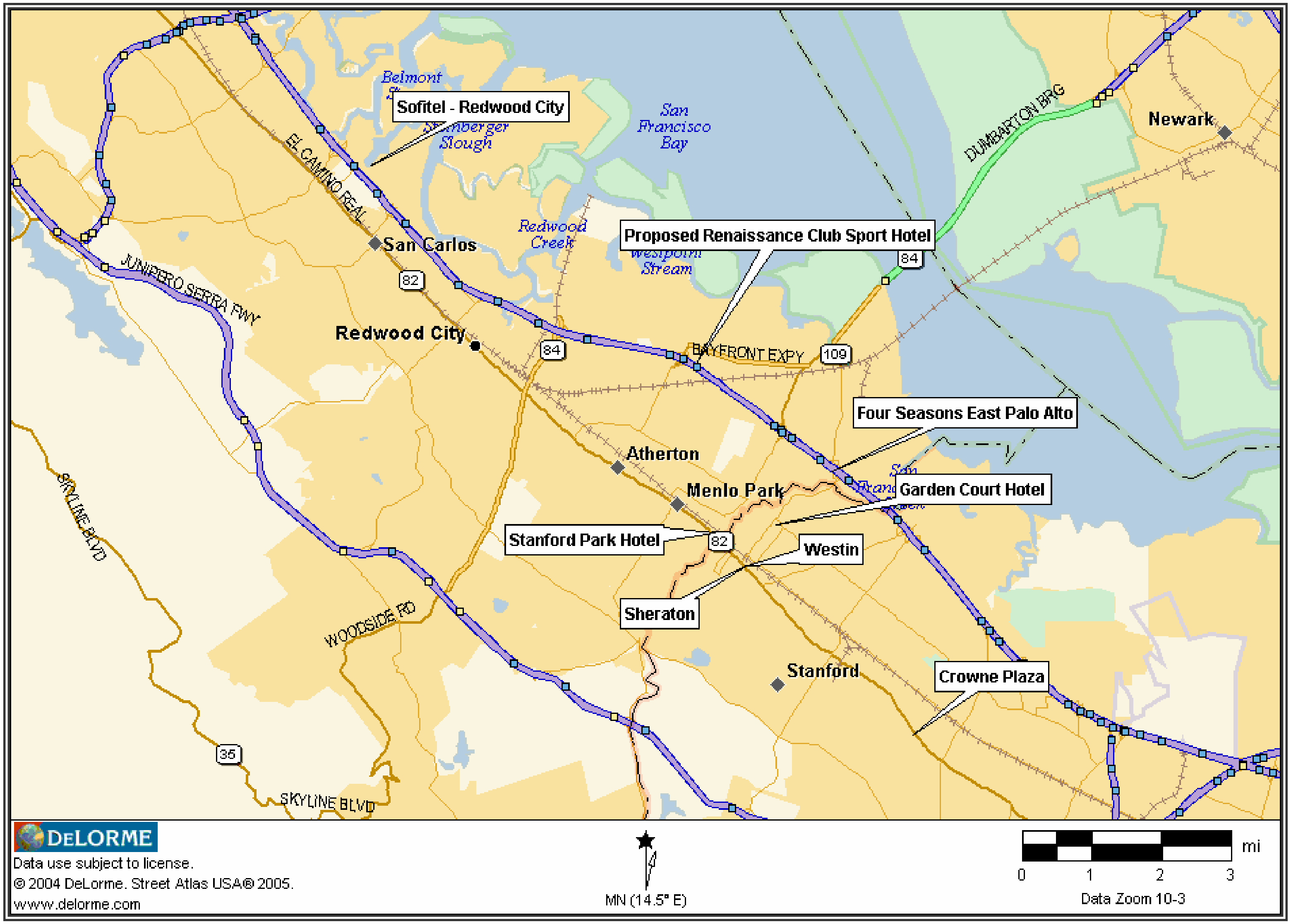
3. Non-Competitive Properties

There are motel facilities in the Menlo Park area, such as the Menlo Park Inn, Red Cottage Inn, Mermaid Inn, Stanford Inn, and Best Western Riveria, among others. Due to the small size (typically less than 100 rooms in size), motel format, other product characteristics, and price point (typically with ADRs less than $100) of these properties, we have not included them in our analysis of the competitive market. As noted, the subject property is projected to be one of the superior lodging facilities in Menlo Park, and in this position will therefore be competitive with the upscale and full-service oriented hotels in the Redwood City and Palo Alto areas.

Summary of the Primary Competitive Hotel Market

							
	Stanford Park Hotel	**Crowne Plaza Cabana Hotel**	**Westin Palo Alto**	**Sheraton Palo Alto**	**Garden Court Hotel**	**Four Seasons E. Palo Alto**	**Sofitel**
Year Opened	1984	1998	2000	1963	1986	2006	1987
Number of Rooms	163	194	184	346	62	200	421
Stories/Corridor Type	4/Interior	2-8/Interior/Exterior	5/Interior	4/Interior	4/Interior	10/Interior	8/Interior
City Location of Hotel	Menlo Park	Palo Alto	Palo Alto	Palo Alto	Palo Alto	East Palo Alto	Redwood City
Distance from Subject (Miles)	3.6	8.7	6.7	6.7	4.6	3.2	6.0
Rate Schedule (Rack)							
Single	\$319-\$725	\$189-\$224	\$159-\$319	\$169-\$289	\$339-\$399	\$325-\$2950	\$249
Double	\$319-\$725	\$189-\$224	\$159-\$319	\$169-\$289	\$339-\$399	\$325-\$2950	\$249
Amenities/Services							
Restaurant	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bar	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Swimming Pool	Yes	Yes	Yes	Yes	No	Yes	Yes
Whirlpool/Spa	Yes	No	Yes	No	No	Yes	Yes
Complimentary Breakfast	Yes	No	No	No	Yes	No	No
Exercise Room	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Comp. Airport Shuttle	Yes	No	Yes	Yes	No	No	No
Complimentary Parking	Yes	Yes	No	No	No	No	Yes
Square Feet of Meeting Space	4,350	12,000	3,300	10,730	5,500	7,050	17,000
Meeting Space Per Guest Room	26.7	61.5	17.9	31.3	88.7	35.3	40.4
AAA Rating	♦♦♦♦	♦♦♦	♦♦♦♦	NR	NR	NR	♦♦♦♦

NR: Not Rated
Source: **PKF Consulting/Individual Properties/American Automobile Association (AAA) 2006/2007 Northern California & Nevada Tour Book**



Competitive Supply Map

4. Additions to Supply

One new hotel is presently under construction in the competitive market. This is the 120-room Rosewood hotel at the southeast quadrant of Interstate 280 and Sand Hill Road, 8.5 mile east from the subject property. The upscale boutique hotel is currently scheduled to open in late 2008, estimated as October 2008. In our opinion, this property would become part of the competitive market due to location and similar product to both the Four Seasons and the Stanford Park hotels.

Three properties are currently proposed for construction: the subject property with 206 rooms opening July 1, 2009; a 120-room hotel to be located within the Stanford Shopping Center; and, an unspecified hotel potentially to be located at the corner of El Camino Real and Page Mill Road in the Equity Office campus located there. The latter two properties are considered highly speculative at this time and therefore are not included as hotels likely to be developed.

Presented in the following table is a summary of the forecast change in the number of available rooms within the overall competitive supply over the period 2007 to 2011, indicating the addition of the Rosewood Hotel and the subject property, as well as the phase in of the remaining rooms at the Four Seasons hotel which opened in early 2006. It should be noted that the rooms are indicated in annual proportion to the opening date of each hotel.

Projected Change in the Competitive Supply
2007 – 2011

	2007	2008	2009	2010	2011
Beginning Supply	1,555	1,570	1,600	1,793	1,896
Changes in Supply:					
Four Seasons East Palo Alto[1]	15	-	-	-	-
Rosewood Hotel[2]	-	30	90	-	-
Renaissance Club Sport Hotel[3]	-	-	103	103	-
Additions	15	30	193	103	0
Ending Supply	1,570	1,600	1,793	1,896	1,896
Percent Change from Prior Year	1.0%	1.9%	12.1%	5.7%	0.0%

[1] Opened February 2006 with 200 rooms.
[2] Projected to open October 2008 with 120 rooms.
[3] Projected to open July 1, 2009 with 206 rooms

Source: **PKF Consulting, Various Project Developers, and the City of Menlo Park Planning Department**

5. Historical Performance of the Competitive Market

The following table summarizes the historical performance of the competitive market over the past five years. The chart refers to “Annual Supply” (number of hotel guestrooms x 365 days/year); “Occupied Rooms” (total room nights occupied); “Market Occupancy” (percentage of occupied rooms over annual supply); “ADR” (Average Daily Room Rate, which is total rooms revenue divided by the number of occupied rooms); and, “RevPAR” (revenue per available room, which is the sum of ADR x Market Occupancy and is a standard measuring unit in the lodging industry).

As can be further noted, as the competitive market is comprised of more upscale, full-service hotels, the occupancy and ADR of the competitive market is stronger than the overall Silicon Valley lodging market performance as indicated on page 12 of this report.

Historical Performance of the Competitive Market

Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	ADR	Percent Change	RevPAR	Percent Change
2002	500,050	-	283,431	-	56.7%	$182.01	-	$103.16	-
2003	500,050	0.0%	283,001	-0.2%	56.6%	166.54	-8.5%	94.25	-8.6%
2004	500,050	0.0%	311,327	10.0%	62.3%	162.60	-2.4%	101.23	7.4%
2005	500,050	0.0%	350,165	12.5%	70.0%	171.50	5.5%	120.09	18.6%
2006	567,575	13.5%	403,504	15.2%	71.1%	$192.43	12.2%	$136.81	13.9%
CAGR	**3.2%**	**-**	**9.2%**	**-**	**-**	**1.4%**	**-**	**7.3%**	**-**

Source: **PKF Consulting**

With the opening of the Four Seasons Hotel in 2006, supply has increased at a compound average annual great rate (“CAGR”) of 3.2 percent since 2002. The increase in supply has been surpassed by increase in demand, which remained essentially stable in 2002 and 2003 during the downturn following 9/11, but demand has increased markedly since 2004, resulting in an occupancy in the low 70’s percent range for 2005 and 2006. It should be noted that the Four Seasons Hotel and the Sofitel significantly under-perform the other hotels in the competitive market with regard to occupancy. The location of the Sofitel in Redwood City is comparably isolated, particularly for weekend and leisure demand, and the ADR of the Four Seasons Hotel with 200 rooms is at the top of the competitive market, both characteristics having a negative affect on occupancy at each property.

ADR dropped for competitive reasons in 2003 and 2004, but has rebounded in 2005 and 2006, along with improving occupancy. Overall, the currently strong ADR is attributed to newness of the products and effective ADR yield management techniques, as demand has remained strong and occupancies have remained in the 80.0 percent range at some properties.

The recent strong demand growth coupled with the addition of higher quality, higher ADR hotels, indicates that there is market demand for higher quality lodging products in the Menlo Park area. The strong ADR growth in 2005 and 2006 further indicates that travelers are willing to pay a premium for the high quality, well-located hotel products.

F. PROJECTED PERFORMANCE OF THE COMPETITIVE MARKET

1. Segmentation of Demand

Typically, demand for hotel rooms in a given market area can be categorized in one of three ways:

Demonstrated or Accommodated Demand – The demand that can be quantified as existing occupancy levels at competitive hotels;

Unsatisfied Demand – The demand that seeks hotel accommodations in the competitive market, but is turned away due to capacity restraints; and,

Induced Demand – The demand that does not presently seek hotel accommodations in the competitive market, but could be persuaded to do so through marketing efforts, room rates, location, new facilities, services, and amenities.

The demand captured by the competitive supply is oriented predominately towards the commercial market segment, with the remaining room nights falling into the group and leisure market segments. The market mix of the competitive set has remained relatively stable, and we do not anticipate any significant change in this mix in future years. A summary of the market segmentation for the competitive properties for year-end 2006 is illustrated in the following table.

Competitive Market
2006 Mix of Demand

Market Segment	Room Nights	Ratio
Commercial	268,714	67.0%
Group	84,909	21.0%
Leisure	49,861	12.0%
Total	**403,504**	**100.0%**

Source: **PKF Consulting**

a. Commercial Market Segment Demand

The commercial market segment comprised approximately 67.0 percent of the overall market, or roundly 268,700 room nights, in 2006, representing the largest segment. This segment is comprised primarily of professionals working for technology companies in the surrounding area and other travelers visiting local companies. As previously discussed, this segment has experienced the most significant decline between 2001 and 2003; however, the majority of the demand growth experienced from 2004 through 2006 can be attributed to the commercial segment. Commercial demand is highest Monday through Thursday and pays the highest room rates attained at most hotels.

Based on discussions with hotel managers and actual demand growth experienced through 2006, commercial demand is projected to increase 3.0 percent in 2007. This level of growth is projected to continue in 2008, and then increase at a faster pace in 2009 and 2010 with the addition of the new Rosewood Hotel and subject property, which are forecast to induce over 15,000 new commercial room nights into the competitive market following their opening. For 2011 and beyond, commercial demand is projected to resume growth 3.0 percent annually prior to the market stabilizing in occupancy in 2012, after which time, due to timing of demand and capacity constraints, growth in demand will force to the finding accommodations outside of the competitive market.

b. Group Market Segment Demand

The group market segment comprised approximately 21.0 percent of the overall market, or roundly 84,900 room nights in 2006, representing the second largest demand segment. The group market segment consists primarily of demand generated from regional association meetings; corporate group meetings; social, military, educational, religious, and fraternal groups ("SMERF"); and special events such as festivals and weddings. Group demand peaks both mid-week and also on weekends, and room rate positioning is generally between commercial and leisure demand, discounted from commercial demand due to the volume of demand and the due to the additional food and beverage that groups generate for most hotels.

Based on discussions with hotel managers, the booking pace for 2007 and 2008 is in line with prior years. As such, group demand is projected to increase at 3.0 percent from 2007 onward. Group demand of 2,000 additional room nights is expected to be induced into the market in 2009 and 2010 with the addition of the new Rosewood Hotel and subject property.

c. Leisure Market Segment Demand

The leisure market segment comprised approximately 12.0 percent of overall market demand, or roundly 49,900 room nights, in 2006, representing the smallest demand segment. This segment consists primarily of leisure travelers on the freeways, visitors to local residents, participants/fans of sporting events, and family and alumni attending events at Stanford University. Leisure demand is highest on Friday and Saturday nights and, except for peak periods of demand such as commencement at Stanford, generally pays a lower room rate than either commercial or group demand.

Based on actual demand growth experienced through 2006, leisure demand is projected to increase approximately 3.0 percent annually from 2007 onward. Additional leisure demand of 8,000 room nights is expected to be induced into the market in 2009 and 2010 with the addition of the new Rosewood Hotel and subject property.

2. Estimated Growth in Supply and Demand

Based on our analysis of the historical growth rates in the three demand segments in the competitive market, coupled with our study of the economic variables currently impacting the Menlo Park area, we are of the opinion that occupied rooms in the marketplace will increase by a CAGR of 3.0 percent annually between 2006 and 2013. In deriving this growth rate, we have primarily analyzed the past historical demand trends in the Silicon Valley lodging market and the recent demand growth in the competitive market. We have also considered the general development trends in the Bay Area, and the more focused new growth anticipated in the Redwood City, Menlo Park, and Palo Alto areas. All of these characteristics lead to expectations of continued growth in demand for the foreseeable future. Additionally, as indicated the opening of new hotels is expected to induce an additional amount commercial, group, and leisure demand into the market, which might have otherwise stayed at other hotel markets further north or further south along Highway 101.

Based on our analysis of the historical growth rates in the competitive market, local economic conditions affecting the competitive market, the historical performance levels of individual hotels, and information gathered through interviews with several hotel managers, we have projected the future performance of the competitive market. In the table on the following page, we present our projections of changes in hotel supply and demand between 2007 and 2013. We have also provided the actual performance of the complete market for 2006 as a point of reference.

As indicated in the table on page 17 of this report, we have accounted for new rooms in annual proportion to the date when these rooms open in the competitive market. Accordingly, the late 2005 opening of the Four Seasons indicates that the balance of the rooms will affect supply in 2006. The new rooms at the Rosewood will affect late 2008 and 2009, along with the opening of the subject property, which will also affect the supply of rooms in 2010. As of 2011, supply is estimated to stabilize at 1,896 rooms daily, or 692,040 annually (1,896 x 365 days/year = 692,040).

We forecast that growth in supply will surpass demand, leading to a decline in market occupancy from 73.0 percent in 2008 to 69.0 percent in 2010, rebounding to 72.0 percent by 2012. It should be noted that in 2009 and 2010, the subject property is expected to induce over 20,000 new room nights into the competitive market.

During the same timeframe, ADR in the competitive market is forecast to grow at 5.0 percent in 2007, 5.0 percent in 2008, and 4.0 percent in 2009. From 2010 forward, ADR growth is projected at 3.0 percent.

Renaissance Club Sport Hotel
Competitive Market
Estimated Future Growth in Lodging Supply and Demand
2007 - 2013

	2006	2007	2008	2009	2010	2011	2012	2013
ROOMS SUPPLY	1,370							
Additions/(Deletions) to Supply								
Renaissance Club Sport Hotel				103	103			
Four Seasons East Palo Alto	185	15						
Rosewood Hotel			30	90				
Cumulative Rooms Supply	1,555	1,570	1,600	1,793	1,896	1,896	1,896	1,896
Total Annual Rooms Supply	567,575	573,050	584,000	654,445	692,040	692,040	692,040	692,040
Growth Over the Prior Year	13.5%	1.0%	1.9%	12.1%	5.7%	0.0%	0.0%	0.0%
DEMONSTRATED DEMAND IN BASE YR								
Commercial	268,714	67%						
Group	84,909	21%						
Leisure	49,881	12%						
TOTAL DEMONSTRATED DEMAND	403,504	100%						
INDUCED/(UNSATISFIED) DEMAND								
Commercial		0	0	10,000	5,000	0	0	0
Group		0	0	1,000	1,000	0	0	0
Leisure		0	0	5,000	3,000	0	0	0
TOTAL INDUCED/(UNSATISFIED) DEMAND		0	0	16,000	9,000	0	0	0
GROWTH RATES								
Commercial		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Group		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Leisure		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
PROJECTED DEMAND								
Commercial								
Demonstrated	268,714	276,775	285,079	293,631	312,740	327,272	337,090	347,203
Induced/(Unsatisfied)	0	0	0	10,000	5,000	0	(7,001)	(17,113)
Total	268,700	276,800	285,100	303,600	317,700	327,300	330,100	330,100
Growth Over Prior Year	N/A	3.0%	3.0%	6.5%	4.6%	3.0%	0.9%	0.0%
Group								
Demonstrated	84,909	87,456	90,080	92,782	96,596	100,524	103,539	106,646
Induced/(Unsatisfied)	0	0	0	1,000	1,000	0	(2,150)	(5,257)
Total	84,900	87,500	90,100	93,800	97,600	100,500	101,400	101,400
Growth Over Prior Year	N/A	3.1%	3.0%	4.1%	4.1%	3.0%	0.9%	0.0%
Leisure								
Demonstrated	49,881	51,377	52,919	54,506	61,291	66,220	68,207	70,253
Induced/(Unsatisfied)	0	0	0	5,000	3,000	0	(1,417)	(3,463)
Total	49,900	51,400	52,900	59,500	64,300	66,200	66,800	66,800
Growth Over Prior Year	N/A	3.0%	2.9%	12.5%	8.1%	3.0%	0.9%	0.0%
Total Market Demand	403,500	415,700	428,100	456,900	479,600	494,000	498,300	498,300
Growth Over Prior Year	N/A	3.0%	3.0%	6.7%	5.0%	3.0%	0.9%	0.0%
Market Occupancy	**71%**	**73%**	**73%**	**70%**	**69%**	**71%**	**72%**	**72%**

Source: PKF Consulting

G. PROJECTED MARKET PERFORMANCE OF THE SUBJECT PROPERTY

1. Overview of Unique Concept and Competitive Advantages

As presented previously in this report, the proposed Renaissance Club Sport is a new and emerging brand within the full-service hotel segment in the United States. The concept takes the closely related construction and operating characteristics of a full-service hotel and a full-service fitness facility, and combines these aspects into one, achieving both construction and operational cost advantages, while at the same time, creating a new, fresh product.

In particular, the subject property will be located on a highly visible and easily accessible site, and like the new Four Seasons Hotel, will become one of the most high profile area hotels with regard to visibility. Further, the property will be all-new construction and will feature an approximate 70,000 square foot upscale fitness center, spa, and swimming pools, along with 206 hotel guest rooms, as well as meeting rooms, a restaurant, a bar, and other hotel services.

The existing Renaissance Club Sport Hotel located in Walnut Creek opened in November 2002 and has become a market leader in occupancy and ADR for the Walnut Creek area. The referrals by club members gives the hotel an ability to deeply penetrate the weekend market, a period of low occupancy generally speaking, which in particular gives this hotel a competitive advantage. For year-end 2006, we understand that the hotel has achieved 116.6 percent occupancy penetration and 130.3 percent ADR penetration. 100.0 percent penetration is "fair-share", indicating that the hotel in Walnut Creek outperforms the average of its competitors by roundly 17.0 percent in occupancy and 30.0 percent in ADR.

The year-end 2006 occupancy and ADR of the Walnut Creek property are reported at 73.0 percent at $156.99, respectively. We note that lodging properties along the San Mateo Peninsula and in the Silicon Valley area generally outperform lodging properties in the East Bay, and a higher occupancy and ADR are forecast for the Renaissance Club Sport hotel in San Mateo as differentiated from the existing property in Walnut Creek, as will be presented as follows.

2. Estimated Occupancy of the Subject Property

According to the aforementioned development program, we have assumed that the subject property will be 206-room full-service hotel attached to a full-service fitness center, similar in design to the existing Renaissance Club Sport Hotel in Walnut Creek, California, and the Renaissance Club Sport Hotel currently under construction in Aliso Viejo, California.

We understand that the hotel will be designed with expansion potential of up to 25 additional hotel rooms. It is our opinion that the performance of the hotel at 231 rooms (206 rooms + future 25 rooms = 231 rooms) would not be materially different than the performance of the hotel at 206 rooms.

In order to project the future occupancy level of the subject property, we have accounted for the expected levels of patronage by market segment that should reasonably be captured by the new hotel. The achievable level of patronage was estimated by performing a fair share penetration analysis. As indicated, we have assumed that the subject property will open on July 1, 2009.

As indicated in the preceding text regarding the performance of the Renaissance Club Sport Hotel in Walnut Creek, a hotel's fair share of its competitive market is defined as the number of available rooms at the subject property divided by the total supply of available rooms in the competitive market, including the subject property. Factors indicating a hotel would posses competitive advantages suggest a market penetration in excess of 100 percent of fair market share, while competitive weaknesses are reflected in penetration less than 100 percent.

Based on the expected attributes of the subject property, we anticipate that it will have various advantages within the market, which will enable the new hotel to stabilize above a 100 percent of its fair share. Our summary of the advantages the new Renaissance ClubSport Hotel is expected to have are presented as follows.

- *Excellent location with accessibility to Highway 101, for both northbound and southbound travelers;*

- *Proximity to Stanford University, Palo Alto, and central Menlo Park;*

- *Newly built, high-quality hotel product as compared to the majority of the existing properties in the area;*

- *Location of a upscale, full-service fitness center, spa, and related services within the hotel structure, provided attraction for both commercial and leisure travelers; and,*

- *Renaissance national chain name and affiliation with Marriott International, offering brand recognition and a strong guest loyalty program among business, group, and leisure travelers.*

- *Proximity to the adjoining commercial office development which will generate commercial demand for the hotel and memberships for the health club.*

Due to the advantages outlined above and our analysis of the existing competitive market, the subject property is expected to perform above its fair share, penetrating the market during its first full year of operation in 2010 at 104.0 percent, resulting in an occupancy of 72.0 percent. We project that the subject will stabilize in its third period of operation also at 104.0 percent. A penetration rate of roundly 104.0 percent results in a stabilized occupancy of 75.0 percent achieved.

On a stabilized basis, the subject property is projected to have a stabilized market mix of approximately 57.0 percent commercial demand, 20.0 percent group demand, and 23.0 percent leisure demand. As compared to the overall market, which accommodates 67.0 percent commercial travelers, 21.0 percent group travelers, and 12.0 percent leisure travelers. While attaining strong penetration into the commercial market, the subject property is forecast to accommodate a higher percentage of weekend and leisure travelers due to its fitness center and spa component, giving it competitive advantages in the local lodging market.

It is estimated that nearly all of the guests accommodated at the subject property will be from out of town. The few local guests are expected to be family of local residents visiting during holiday periods and requiring a hotel. Most of this demand at the subject property will be generated by family referrals of fitness club members.

The double occupancy factor at the subject property is expected to be approximately 1.4, indicating a high degree of single occupancy rooms, typical for a hotel primarily oriented to commercial travelers. In a stabilized year of operation at 75.0 percent occupancy, this would indicate approximately 76,600 guests at the hotel on an annual basis.

The table on the following page summarizes the projected occupancy and penetration levels for the subject property the period 2009 to 2013, the first five periods of operation for the subject property. As can be seen in the table, on a stabilized basis, the subject property with 206 rooms will represent 10.9 percent of the rooms in the competitive market. Therefore, a fair share penetration of 100.0 percent would result in the subject property attaining demand of 10.9 percent of overall market demand. As indicated, we expect the subject property to attain a premium in market penetration, achieving 104.0 percent penetration on a stabilized basis, or a capture rate of 11.3 percent of total competitive market demand.

It should be noted that 2009 represents the partial year July 1, 2009 to December 31, 2009, during which period we project that the subject property is forecast to attain an initial period occupancy of 62.0 percent.

Renaissance Club Sport Hotel
Market Penetration and Projected Occupancy

	2009	2010	2011	2012	2013
TOTAL ROOMS AVAILABLE					
Renaissance Club Sport Hotel	**37,595**	**75,190**	**75,190**	**75,190**	**75,190**
Competitive Market	654,445	692,040	692,040	692,040	692,040
	====	====	====	====	====
Fair Share of Supply	5.7%	10.9%	10.9%	10.9%	10.9%
	====	====	====	====	====
ESTIMATED TOTAL MARKET DEMAND					
Commercial	303,600	317,700	327,300	330,100	330,100
Group	93,800	97,600	100,500	101,400	101,400
Leisure	59,500	64,300	66,200	66,800	66,800
	-------	-------	-------	-------	-------
TOTAL	456,900	479,600	494,000	498,300	498,300
	-------	-------	-------	-------	-------
FAIR SHARE OF DEMAND					
Commercial	17,400	34,500	35,600	35,900	35,900
Group	5,400	10,600	10,900	11,000	11,000
Leisure	3,400	7,000	7,200	7,300	7,300
	-------	-------	-------	-------	-------
TOTAL	26,200	52,100	53,700	54,200	54,200
	-------	-------	-------	-------	-------
SUBJECT PENETRATION					
Commercial	80%	88%	90%	90%	90%
Group	90%	100%	100%	100%	100%
Leisure	130%	190%	190%	180%	180%
	-------	-------	-------	-------	-------
ROOM NIGHTS CAPTURED					
Commercial	14,000	30,200	32,000	32,300	32,300
Group	4,800	10,600	10,900	11,000	11,000
Leisure	4,400	13,300	13,700	13,100	13,100
	-------	-------	-------	-------	-------
TOTAL CAPTURED DEMAND	23,200	54,100	56,600	56,400	56,400
	====	====	====	====	====
MARKET SHARE CAPTURED	5.1%	11.3%	11.5%	11.3%	11.3%
OVERALL MARKET PENETRATION	**88%**	**104%**	**104%**	**104%**	**104%**
	-------	-------	-------	-------	-------
SUBJECT OCCUPANCY	**62%**	**72%**	**75%**	**75%**	**75%**
	-------	-------	-------	-------	-------
MARKET MIX					
Commercial	60%	56%	57%	57%	57%
Group	21%	20%	19%	20%	20%
Leisure	19%	25%	24%	23%	23%
	-------	-------	-------	-------	-------
TOTAL	100%	100%	100%	100%	100%
	====	====	====	====	====

Source: PKF Consulting

3. Estimated ADR of the Subject Property

Based on our analysis of the local hotel market, coupled with our knowledge of the operating characteristics of the Renaissance Club Sport brand, we are of the opinion that the 206-room subject could achieve an ADR of $200.00 if open today and $213.00 upon opening in 2009 (inclusive of opening year discounts).

This ADR would place the subject property below the projected 2007 year-end ADR of the Garden Court Hotel, Four Seasons East Palo Alto, and Stanford Park hotels, on par with the expected year-end 2007 ADR of the Westin and Sheraton hotels, and above the other properties in the competitive market. In our opinion, this would be the correct positioning for the subject property within the competitive market. We forecast ADR growth in the competitive market of 5.0 percent for 2007, 4.0 percent for 2008, and 3.0 percent for 2009 forward.

Upon opening of the subject property in 2009, we expect that an opening discount of 2.5 percent in ADR will be offered by management to stimulate demand in this initial period. Achieved ADR is projected to increase by 5.5 percent in 2010 to $225, 3.0 percent for 2011 to $232, and then at an increase of 3.0 percent annually for 2012 forward.

Presented in the following table is our forecast of the occupancy levels and ADR that the proposed hotel could achieve over its first five years of operation, assuming the subject property opens for business effective July 1, 2009 as described in the preceding text.

Proposed Renaissance Club Sport Hotel
Projected Performance

Year	Estimated ADR	Market Growth	Achieved ADR	Percent Change	Occupancy	RevPAR	Percent Change
2007	$200.00[1]	-	-	-	-	-	-
2008	$210.00	5.0%	-	-		-	-
2009[2]	$218.00	4.0%	$213.00	(2.5)	62.0%	$132.06	-
2010	$225.00	3.0%	$225.00	5.5%	72.0%	$162.00	22.7%
2011	$232.00	3.0%	$232.00	3.0%	75.0%	$174.00	7.4%
2012	$239.00	3.0%	$239.00	3.0%	75.0%	$179.25	3.0%
2013	$246.00	3.0%	$246.00	3.0%	75.0%	$184.50	3.0%

[1] ADR if the Subject were open in 2007
[2] Reflects the July 1, 2009 opening of the subject property
Source: **PKF Consulting**

4. Impact on Existing Hotels in Menlo Park

There are currently six hotels in operation in Menlo Park. The 163-room Stanford Park Hotel has been included in the competitive set for the subject property. The other five hotels are small, inn-type properties and comprise: the Menlo Park Inn, Red Cottage Inn, Mermaid Inn, Stanford Inn, and Best Western Riviera.

These six properties, the majority of which are small motel-type properties, operate at a much lower price point with regard to ADR than the subject property (typically less than $100). The Stanford Park Hotel, however, an upscale boutique hotel, provides a much higher level of product and a commensurately higher ADR than is forecast for the subject property. As a result each of the six properties is individually different and distinct in operating style and quality from the subject property.

Further, the location of the subject property along the Marsh Road interchange of heavily traveled Highway 101 is a simple and easy location for travelers due to freeway accessibility. The location of the other Menlo Park hotels along less-traveled El Camino Real, is comparably distant due to the winding neighborhood streets required to be followed in order to reach these properties from Highway 101.

Based on our analysis, due to the described product and locational differences, and based on our professional judgment as experts in the lodging industry, it is our opinion that the subject property will not have any measurable effect on the occupancy, ADR, or other operating revenues of the six lodging properties currently located in Menlo Park.

5. Estimated Transient Occupancy Tax ("TOT") Revenue

The current transient occupancy tax ("TOT") in the City of Menlo Park is 10.0 percent of total rooms revenue. We are not aware of any proposal to increase or decrease the current TOT rate during the analysis period for the subject property.

Based on our preceding occupancy and ADR estimates, the following table provides estimated rooms revenue and resulting TOT for the 206-room subject property for 2009 through 2013. Beyond 2013, TOT revenues would increase at 3.0 percent annually.

Proposed Renaissance Club Sport Hotel
Estimated Transient Occupancy Taxes

Year	Occupancy	ADR	Rooms Revenue	TOT Rate	TOT
2009 (July 1 to December 31)	62.0%	$213.00	$5,006,000	10.0%	501,000
2010	72.0%	$225.00	$12,181,000	10.0%	$1,218,000
2011	75.0%	$232.00	$13,083,000	10.0%	$1,308,000
2012	75.0%	$239.00	$13,478,000	10.0%	$1,348,000
2013	75.0%	$246.00	$13,873,000	10.0%	$1,387,000

6. Estimated Economic Benefits to the City of Menlo Park

Every dollar collected by a hotel facility eventually recycles or multiplies itself, creating many levels of economic activity in the communities served by the hotel. As employers, hotels pay wages and the wage earners make purchases. As consumers, hotels buy goods and services from area businesses. This multi-level economic activity generated by a hotel is estimated by using an economic multiplier estimated by the American Hotel & Lodging Association. The various economic multipliers are listed by Metropolitan Statistical Areas, which for San Francisco is 1.965 and for San Jose is 2.090, indicating an average multiplier 2.028 of being applicable to a property located in the Menlo Park area.

The statistics in the following table indicate the total revenue for the proposed hotel at **200 rooms** per the estimates prepared by Marriott International, which we have indicated are reasonable, and the resulting estimate of economic benefit to the Menlo Park area and areas throughout the regional Bay Area which have businesses providing goods and services to the subject property.

Proposed Renaissance Club Sport Hotel
Estimated Economic Benefit

Year	Total Revenue [1]	Economic Multiplier	Economic Benefit
2009 (July 1 to December 31)	$12,702,000	2.028	$25,760,000
2010	29,957,000	2.028	60,753,000
2011	33,503,000	2.028	67,944,000
2012	35,156,000	2.028	71,296,000
2013	$36,615,000	2.028	$74,255,000

[1] Source: Marriott International estimates of total hotel revenue, including rooms revenue

7. Sensitivity Analysis

At your request, in addition to our preceding forecast of the operating performance for the subject property, which could be termed the "likely" scenario, we have also estimated the performance of the hotel under both a "pessimistic" and an "optimistic" scenario.

Typically, individuals underwriting an investment in a hotel property will "stress test" their financial analysis for a project with an occupancy estimate five percentage points above and below the forecasted "likely" occupancy scenario for the project. Accordingly, we have projected the pessimistic scenario at five percentage points lower in occupancy and the optimistic scenario as five points higher in occupancy. ADR for all three scenarios is estimated to remain stable.

In preparing these scenarios, our focus has been on the likely occupancy of the subject property should there be a market downturn or a marked up-tick in the competitive lodging market. In both scenarios, given the newness of product for the subject property and the demonstrated acceptance in the competitive market for high-achieved ADRs at new hotel properties, as indicated, we forecast that the primary impact on the future performance of the subject property in a pessimistic or an optimistic scenario would be on occupancy, and not ADR.

Our forecast for the occupancy and ADR for the subject property for all three scenarios for 2009 to 2013 is presented in the following table.

Proposed Renaissance Club Sport Hotel
Projected Performance – Various Scenarios

Scenario	Pessimistic		Likely		Optimistic	
Year	Occupancy	ADR	Occupancy	ADR	Occupancy	ADR
2009[1]	57.0%	$213.00	62.0%	$213.00	67.0%	$213.00
2010	67.0%	$225.00	72.0%	$225.00	77.0%	$225.00
2011	70.0%	$232.00	75.0%	$232.00	80.0%	$232.00
2012	70.0%	$239.00	75.0%	$239.00	80.0%	$239.00
2013	70.0%	$246.00	75.0%	$246.00	80.0%	$246.00

[1] Reflects the July 1, 2009 opening of the subject property
Source: **PKF Consulting**

ADDENDA

A. **CERTIFICATION OF THE CONSULTANTS**

B. **STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS**

ADDENDUM A

CERTIFICATION OF THE CONSULTANTS

CERTIFICATION OF THE CONSULTANTS

We, Thomas E. Callahan, CPA, CRE, FRICS, MAI and Kenneth Kuchman certify that to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, conclusions, and recommendations.
- We have no present or prospective interest in the property that is the subject property of this report, and we have no personal interest with respect to the parties involved.
- We have no bias with respect to any property that is the subject property of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report.
- Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- We have made a personal inspection of the property that is the subject property of this report.
- No one has provided significant professional assistance to the persons signing this report.
- We certify that, to the best of our knowledge and belief, the reported analysis, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
- The use of this report is subject property to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

- As of the date of this report, Thomas E. Callahan, CPA, CRE, FRICS, MAI has completed the requirements of the continuing education program of the Appraisal Institute.

- We are Certified General Real Estate Appraisers in the State of California.

Respectfully submitted,

By: Thomas E. Callahan, CPA, CRE, FRICS, MAI
Chief Executive Officer - West

By: Kenneth Kuchman
Vice President

ADDENDUM B

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

Economic and Social Trends - The consultant assumes no responsibility for economic, physical or demographic factors which may affect or alter the opinions in this report if said economic, physical or demographic factors were not present as of the date of the letter of transmittal accompanying this report. The consultant is not obligated to predict future political, economic or social trends.

Information Furnished by Others - In preparing the report, the consultant was required to rely on information furnished by other individuals or found in previously existing records and/or documents. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either expressed or implied, is given by the consultant for the accuracy of such information and the consultant assumes no responsibility for information relied upon later found to have been inaccurate. The consultant reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

Hidden Conditions - The consultant assumes no responsibility for hidden or unapparent conditions of the properties, subsoil, ground water or structures. No responsibility is assumed for arranging for engineering, geologic or environmental studies that may be required to discover such hidden or unapparent conditions.

Hazardous Materials - The consultant has not been provided any information regarding the presence of any material or substance on or in any portion of the subject property, which material or substance possesses or may possess toxic, hazardous and/or other harmful and/or dangerous characteristics. Unless otherwise stated in the report, the consultant did not become aware of the presence of any such material or substance during the consultant's inspection of the subject property. However, the consultant is not qualified to investigate or test for the presence of such materials or substances. The consultant assumes no responsibility for the presence of any such substance or material on or in the subject property, nor for any expertise or engineering knowledge required to discover the presence of such substance or material. Unless otherwise stated, this report assumes the subject property is in compliance with all federal, state and local environmental laws, regulations and rules.

Zoning and Land Use - Unless otherwise stated, the subject property is assumed to be in full compliance with all applicable zoning and land use regulations and restrictions.

Licenses and Permits - Unless otherwise stated, the property is assumed to have all required licenses, permits, certificates, consents or other legislative and/or administrative authority from any local, state or national government or private entity or organization that have been or can be obtained or renewed for any use on which the performance estimates contained in this report are based.

Engineering Survey - No engineering survey has been made by the consultant. Except as specifically stated, data relative to size and area of the subject property was taken from sources considered reliable and no encroachment of the subject property is considered to exist.

Subsurface Rights - No opinion is expressed as to the value of subsurface oil, gas or mineral rights or whether the property is subject property to surface entry for the exploration or removal of such materials, except as is expressly stated.

Maps, Plats and Exhibits - Maps, plats and exhibits included in this report are for illustration only to serve as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced or used apart from the report.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS
(Continued)

Legal Matters - No opinion is intended to be expressed for matters which require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate consultants.

Right of Publication - Possession of this report, or a copy of it, does not carry with it the right of publication. Without the written consent of the consultant, this report may not be used for any purpose by any person other than the party to whom it is addressed. In any event, this report may be used only with properly written qualification and only in its entirety for its stated purpose.

Archeological Significance - No investigation has been made by the consultant and no information has been provided to the consultant regarding potential archeological significance of the subject property or any portion thereof. This report assumes no portion of the subject property has archeological significance.

Compliance with the Americans with Disabilities Act - The Americans with Disabilities Act ("ADA") became effective January 26, 1992. It is assumed that the property will be in direct compliance with the various detailed requirements of the ADA.

Definitions and Assumptions - The definitions and assumptions upon which our analyses, opinions and conclusions are based are set forth in appropriate sections of this report and are to be part of these general assumptions as if included here in their entirety.

Utilization of the Land and/or Improvements - It is assumed that the utilization of the land and/or improvements is within the boundaries or property described herein and that there is no encroachment or trespass.

Dissemination of Material - Neither all nor any part of the contents of this report shall be disseminated to the general public through advertising or sales media, public relations media, new media or other public means of communication without the prior written consent and approval of the consultant(s).

Distribution and Liability to Third Parties - The party of whom this report was prepared may distribute copies of this report only in its entirety to such third parties as may be selected by the party for whom this report was prepared; however, portions of this report shall not be given to third parties without our written consent. Liability to third parties will not be accepted.

Use in Offering Materials - This report, including all cash flow forecasts, market surveys and related data, conclusions, exhibits and supporting documentation may not be reproduced or references made to the report or to PKF Consulting in any sale offering, prospectus, public or private placement memorandum, proxy statement or other document ("Offering Material") in connection with a merger, liquidation or other corporate transaction unless PKF Consulting has approved in writing the text of any such reference or reproduction prior to the distribution and filing thereof.

Limits to Liability - PKF Consulting cannot be held liable in any cause of action resulting in litigation for any dollar amount which exceeds the total fees collected from this individual engagement.

Legal Expenses - Any legal expenses incurred in defending or representing ourselves concerning this assignment will be the responsibility of the client.

APPENDIX C: FITNESS CLUB MARKET ANALYSIS PREPARED BY BRION & ASSOCIATES

BRION & ASSOCIATES

Working Draft: M E M O R A N D U M

To: Dave Bohannon, Bohannon Planning Team

From: Joanne Brion, Brion & Associates

Subject: Draft Market Analysis for Fitness Clubs in Menlo Park; B&A #2322

Date: June 12, 2007

The following analysis evaluates the market for a new fitness center and spa in Menlo Park that would be integrated into the Marriott's Renaissance Club Sport (RCS). RCS is a new four-star, luxury, boutique concept-hotel combined with a large fitness and spa center. The proposed project would be located between Highways 101 and 84, on Independence Drive near Chrysler Drive. The project is part of a larger application for a mixed use development proposed by the Bohannon Organization

City Planning Staff has requested that the project applicant: the Bohannon Organization, prepare a market analysis of the fitness center to determine what impacts the proposed project will have on existing fitness centers and gyms in the City. The City is also interested in whether there is market demand overall for the proposed fitness facility.

The market area for this analysis is defined by "drive times" from the proposed project site, by the density of population and employment and household income. RCS considers a primary market area and a secondary market area to be 10 minutes and 15 minutes from the project site, respectively. This generally translates into from 3 to 5 miles from the subject site, but varies depending on traffic conditions. It generally includes Menlo Park, Palo Alto, Atherton, Redwood City, San Carlos, the northern edge of Mountain View and the southern edge of San Mateo. There are about 12 existing facilities that could potentially compete with the proposed RCS facility. Only two fitness clubs are currently located in Menlo Park.

2641 Barndance Lane • Santa Rosa, CA 95407 • tel/fax 707.570.1477 • joanne@brionassociates.com

SUMMARY OF FINDINGS

1. *The site at Independence Drive and Chrysler Drive in Menlo Park represents an excellent opportunity to meet the fitness and health club needs of the broader Menlo Park market area.*

2. *The demographics and accessibility of the nearby residential communities are excellent.*

3. *The site enjoys high visibility from Highway 101.*

4. *The existing competition from higher-end fitness club facilities in the surrounding trade area is minimal and there are no comparable fitness facilities to the proposed RCS facility in Menlo Park.*

5. *There is only one fitness club comparable to the proposed RCS facility club located in Redwood City and not within Menlo Park. While the market areas for the proposed RCS facility and the Pacific Athletic Facility in Redwood City overlap, there is ample demand for both high-end facilities in the broader Menlo Park market.*

6. *The demographics of the site are equal to or exceed the demographics of four other facilities, including Walnut Creek, Pleasanton, Fremont, and Tigard, Oregon.*[1]

7. *The majority of the current fitness club supply is small to medium sized facilities oriented towards basic amenities and services at an affordable month rate and joining fee.*

8. *Only one existing facility, the Pacific Athletic Club, is on par with the proposed RCS facility. This club is located six miles from the proposed site, has access and parking constraints, and is slightly outside the site's defined market area.*

In summary, the proposed RCS fitness club should have no significant effect on existing fitness clubs and gyms in Menlo Park because they are serving different segments of the market and price points.

OVERVIEW OF FITNESS INDUSTRY TRENDS AND MARKET CONDITIONS

The International Health, Racquet & Sports Association is the primary trade organization for fitness clubs. This organization publishes two useful documents concerning market conditions and demand factors related to fitness facilities. These include the 2006

[1] The Walnut Creek facility is an RCS facility and the other three are Leisure Sports facilities; Leisure Sports runs the fitness portion of the RCS hotel.

Profiles of Success and the 2004 Lender's Guide. Both of these documents have been reviewed and used in this analysis.
A summary of some key market facts includes:[2]

- The workout industry has experienced overall steady growth, with the exception of one downturn in 1994-95, since 1985. The industry had about 9,200 facilities in 1985 and as of 2005, there was about 29,000, or an increase of 215% overall in the industry.

- Membership at fitness facilities has increased from about 17.3 million in 1987 to 41.3 million as of 2005, or an increase of 140%.

- Women make up 57% of all gym members. About 50% of all health club members reside in households with household income greater than $75,000.

- The greatest increase in numbers of health club members are in households with incomes between $50,000 and $74,999. For 2005, the most recent year numbers are available for, 23% of all members were in this income cohort.

- One-third of all members are in the 35-54 age range.

- Between 1995 and 2005 the number of members over the age of 55 who belonged to a health club increased by a remarkable 305%.

- In the past 5 years, the number of members over the age of 55 who belonged to a health club increased by 9%. This is also a growing segment of the fitness market.

The fitness industry has grown significantly in recent years. However, despite this growth about 45% of all current members are first time members of a fitness facility.[3] In addition, highly visible signage for a facility can account for about 15% of new members.[4] What this means is that the fitness club market is not pursuing a fixed set of potential customers; rather it is about providing new and different products, services and settings that increase demand overall.[5] Just the renovation of an existing facility in a market area can increase demand or potential members in a market, according to the IHRSA. The RCS fitness product is a perfect example of this phenomenon. With a new large format facility that provides a wide range of athletic choices, classes, kids' play center, outdoor fitness activities, a spa and high end locker facilities "set" in a boutique hotel, the product captures a much wider portion of the potential fitness market than a normal fitness club.

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[2] See "2006 Profiles of Success" prepared by International Health, Racquet & Sports Association, pages 6 to 10.
[3]See "2004 IHRSA's Guide to the Health Club Industry for Lenders & Investors" second edition, prepared by John McCarthy, published by International Health, Racquet & Sports Association, p. 33 and 47
[4] Ibid, page 53.
[5] Ibid, page 47.

There are a wide variety of types of clubs in the market. About one-third of all fitness facilities in various databases are small or "mini-clubs" of approximately 2,500 sqft and from 300 to 500 members.[6] The RCS facility is on the other end of this spectrum. Many other clubs are much larger: from 25,000 to 75,000 sqft, offering a wide variety of services, equipment, classes, etc. "Price is another factor that stimulates demand. For example, wherever there is a successful high-priced ($85 to $125/month) club, there is almost always room for a lower priced facility ($25 to $65/month) in the exact same vicinity. Examples of this abound in every major metro area."[7] It is possible to have a variety of fitness clubs of varying sizes and prices in the same market and have them all be successful.

There are several demand factors to consider in the fitness industry but the two most important are population density and travel time. According to the IHRSA, "It is axiomatic that clubs thrive in markets where population density is highest. Sophisticated club operators like to site their facilities in markets where at least 50,000 and preferably 100,000+ people are in close proximity to the facility."[8] Smaller facilities can thrive in smaller markets. The Menlo Park site, with about 229,000 residents in a 5-mile trade area, clearly exceeds these criteria.

Concerning travel time, the IHRSA states "In suburban markets, in which the automobile is the primary means of commuting to a club, the primary trading area for clubs in competitive markets extends no more than 12 minutes travel time from the club. Note, first, that the reference is to travel time, and not to miles or distance. In every market, these factors are distinct. Note, second, that this implies 12 minutes from either a person's residence or his/her office."[9] For our analysis below we have gathered data for a 3-mile area, which equates roughly to a 10-minute travel time and a 5-mile area, which equates to a 15-minute travel time.

In California, about 18% of residents belong to a fitness facility of some sort and nationwide, this figure is about 13%.[10] The IHRSA notes that in the two markets with the greatest penetration, Denver with 25% and San Diego with 23% penetration rates,[11] the market is still adding new fitness facilities.[12] Overall, the fitness industry is a growing industry, and the market is always responding with new products, services and types of facilities. The industry data also show that there is demand for a variety of sizes, types and price points of fitness clubs.

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[6] See "2004 IHRSA's Guide to the Health Club Industry for Lenders & Investors" page 30.
[7] Ibid. page 33.
[8] Ibid, page 43.
[9] Ibid, page 43.
[10] See "2006 Profiles of Success" prepared by International Health, Racquet & Sports Association, page 13.
[11] Ibid, page 14.
[12] See "2004 IHRSA's Guide to the Health Club Industry for Lenders & Investors" page 33.

SITE CONSIDERATIONS

The Bohannon site offers excellent access and visibility for a potential RCS facility.

Access: During non-commute hours, access to the site via Highway 101 is relatively easy from both the north and south-bound directions. During the morning commute the north-bound lanes of 101 are fairly congested, and during the evening commute the south-bound lanes of 101 experience heavy traffic. Access to the site from Marsh Rd. is convenient and the site is merely a 10-minute drive from the corner of Selby Lane and Atherton Avenue in Atherton.

While traffic on Highway 101 will certainly have a role in the future dynamics of this site, it should not have much of an impact on club membership. Most of the members trying to access the club during the rush hour period will most likely be commuters already traveling to work on the highway. All of the residential members will be accessing the club via Marsh Road, enabling them to avoid the 101 traffic. The site also offers access from Highway 84 and commuters that live in the East Bay.

Visibility: The site has frontage on Hwy 101 providing excellent visibility to both north and south-bound travelers.

CURRENT DEMOGRAPHICS AND DEMAND INDICATORS

The RCS will draw its members from commuters passing the site on Hwy 101 and residents living in the affluent residential neighborhoods between Hwy 101 and I-280. Atherton and Menlo Park are affluent residential communities containing mostly high-end single family homes.

Table 1 summarizes key demand indicators for the Menlo Park market area, at 3- and 5-mile radius from the proposed RCS site. [13] Key demographic indicators that RCS evaluates when choosing a site included:

- Population Density
- Household Income
- Employment Density
- Total Businesses
- Households by Type (family and non-family)
- Entertainment/Recreation Spending Potential

[13] Data is presented for 3-mile and 5-miles from 150 Independence site.

These factors are consistent with how the industry evaluates market demand as discussed earlier. Data for these indicators are shown in **Table 1** and compared to the same data for the Walnut Creek RCS and the average of the four other Leisure Sports facilities. Leisure Sports is the operator for RCS fitness facilities but they also operate free standing high end fitness clubs as well. The other three facilities include Pleasanton, Fremont, and Tigard, Oregon. Within the 5-mile market area there are approximately about 229,400 residents and the average household income is about $146,000, according to data from ESRI. Within the 3-mile market area there are about 113,900 residents with an average household income of about $127,400. In the 5-mile trade area there are a total of about 229,000 residents.

Employment within the market area is significant, with about 65,000 jobs in the 3-mile area and about 136,000 jobs in the 5-mile market area. In almost every category, the Menlo Park site offers demographics that are equal to or exceed the four facility average shown in Table 1. The Menlo Park site is expected to perform better than the Walnut Creek RCS. Briefly restated; employment, population, household income, and potential entertainment/recreation spending potential in the Menlo Park market area are higher than the other comparable Leisure Sports facilities, which is expressed as a percent higher than 100%.

RCS targets a mix of families and non-families. The Menlo Park market area has an ideal mix of 60% families and 40% non-families, similar to the Walnut Creek facility.

RCS also targets corporate memberships and the market area has 6,700 businesses in the 3-mile area and 12,700 businesses in the 5-mile area or 138% and 142% respectively of the four RCS site average as shown in **Table 1**.

Table 2 summarizes the proposed membership mix targeted by RCS for the Menlo Park site and compares these targets to the actual data in the market area. Trade data for fitness clubs find that in a market with at least 60,000 adult residents, with average incomes of over $60,000, 20% could be expected to belong to some type of fitness facility. This equates to approximately 46,000 potential members in the 5 mile market area for the Menlo Park site.[14]

RCS is targeting about 10,000 members for the Menlo Park facility. Of these members, 4,000 will be employee or corporate memberships, and the other 6,000 members will comprise families, couples and singles. The average size per memberships for this latter category is 2.2 people. Overall, RCS expects to have about 4,550 memberships. It should be noted that the club is also supported by visitors of the hotel but these day members are not counted in this analysis. Hotel patrons would have use of the fitness facility as guests of the hotel, but would pay for special services such as the spa or a personal trainer.

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[14] See “2004 IHRSA’s Guide to the Health Club Industry for Lenders & Investors” second edition, prepared by John McCarthy, published by International Health, Racquet & Sports Association, p. 49.

As shown in **Table 2**, RCS's target for Menlo Park by market area (i.e., 5-mile) is clearly supportable. For employment their target of 4,000 employees represents a mere 3% of the 5-mile market area's employment base as of 2006. The RCS facility will target households with incomes over $75,000. There are about 47,200 households with incomes over $75,000 in the 5-mile area. These households comprise about 118,000 residents. The RCS with its 6,000 resident target would need to capture a mere 5% of the area's residents with incomes over $75,000.

CURRENT SUPPLY OF FITNESS CLUBS AND GYMS

There are 12 existing fitness clubs and gyms in the broader 5-mile market area as shown on the figure below. A few are located on the very edge of the 15-minute drive time boundary. **Table 3** summarizes the facilities by address and city. Two facilities are located in Menlo Park including Bay Front Fitness Club located on Constitution Drive, and Fitness 101 located on Scott Drive, just east of Highway 101. Three facilities are in Palo Alto, two in San Carlos, three in Redwood City, and one each in Mountain View and San Mateo.

Table 4 summarizes the characteristics of each of the 12 facilities. Information on the size of these facilities was available for 10 of the 12 facilities. A total of about 315,000 sqft of fitness center space exists in the market area. Information on the number of members at each facility was not as readily available. About six of the facilities could be characterized as small, including the two facilities in Menlo Park and one can be characterized as tiny. Three of the facilities can be characterized as medium sized fitness clubs, and the remaining one for which we have data is a large club: the Pacific Athletic Facility in Redwood City similar in size and demographic to that of the proposed RCS facility. The average size of fitness facilities in the market is about 31,500 sqft. It is not possible to compare the amount of gym space in the market to an average demand factor. In surveys performed by the IHRSA, there is a range in the amount of square footage per membership, based on the type and size of the club, from 11.6 sqft to 17 sqft.[15] Without having data on membership it is not possible to evaluate the market by this measure. As shown, the sqft per member can vary significantly. The proposed RCS facility will have about 15.4 sqft per membership. Data on the number of memberships for the other facilities was not available.

Information about services offered at the existing facilities is more readily available. As shown, there is a wide range of services offered, membership dues, joining fees, and amenities.[16] Information on size and membership is included in **Table 4** if it was available. Highlights of this data include:

[15] See "2006 Profiles of Success", IHRSA p. 18.
[16] This data was collected via site visits and telephone conversations with each facility or from their respective websites. Facility size and membership was not always available.

- 5 or 42% of the facilities have pools.
- 4 or 33% have courts for basketball.
- 8 or 67% offer child care and of these most charge an hourly rate for these services.
- 2 or 17% have a day spa.
- 8 or 67% monthly dues are under $65 per month, which is commensurate with the services and amenities offered.
- Initiation fees range from zero to a low of $75 at the Fitness 101 to a high of $9,680 at the Foothills Tennis and Swimming Club.

Only the Pacific Athletic Club is on par with the proposed RCS facility. The Foothills Tennis and Swimming Club is a private country club with a tiny fitness component. The Vivre Fitness and Wellness Center in Palo Alto has similar fees but only a fraction of the amenities offered by RCS and is a relatively small facility.

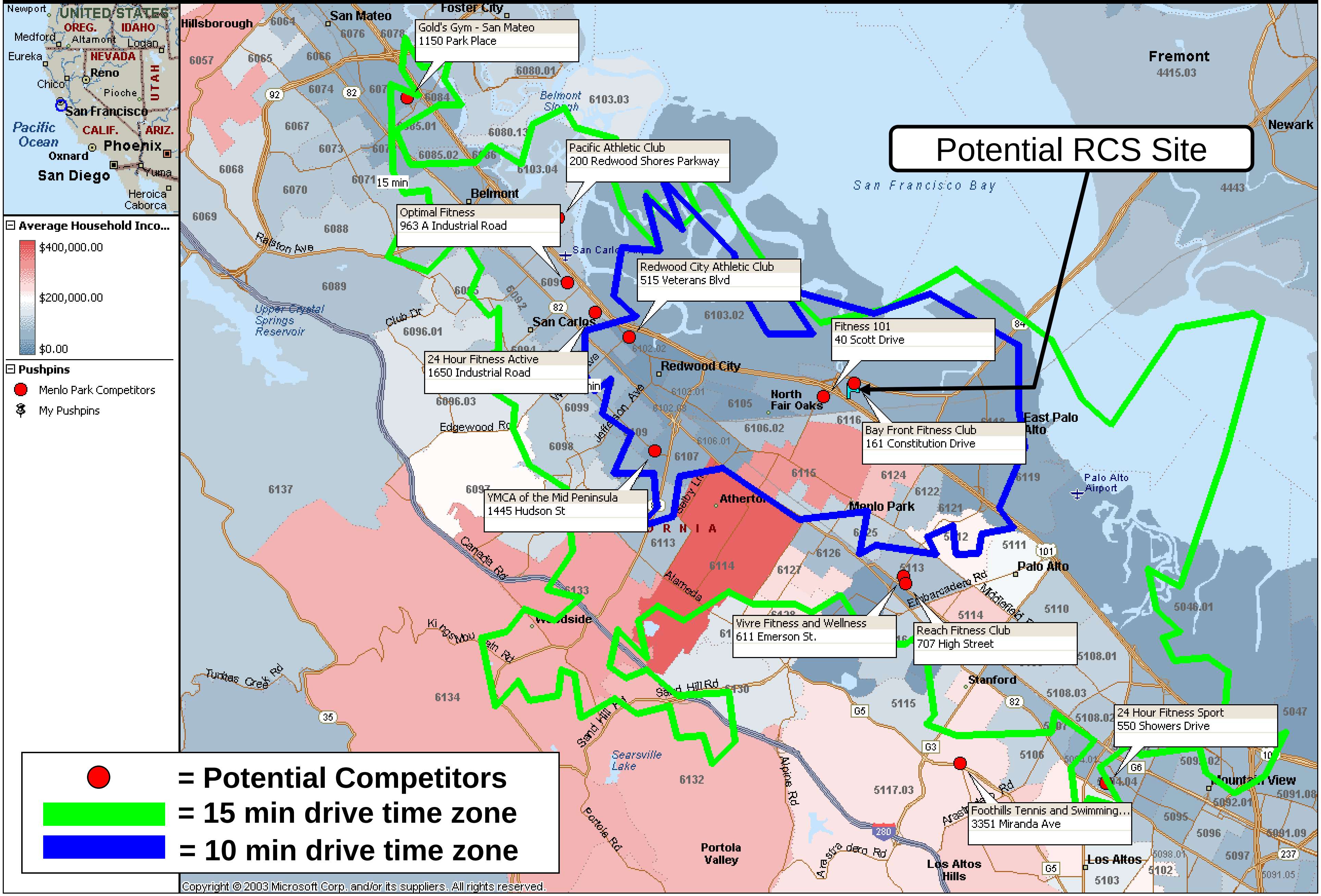
Highlights of <u>some</u> of the existing facilities in the market are described below.

1. **Bayfront Fitness –** Of the nine clubs in the trade area, this club is the closest to the RCS site. It is a very small basic gym facility for weight lifting and other basic training. There are a few pieces of cardio equipment, 20 or so pieces of circuit equipment, and some free weights. The facility is located in an industrial building with a roll up door in the back. Dues at this club were $55 a month and $100 to join. This club, due to its size and lack of amenities offered, is not directly competitive with RCS.

2. **Fitness 101 –** This club is a formula – franchise facility in a 15,000 square foot space located in Menlo Park east of Highway 101 near the proposed site. Although this club is easily accessed form the freeway, the building is older and has a very small parking area. The facility is comprised of a small cardio area with approximately 50 pieces of equipment, a large fitness floor with Hammer Strength and Cybex equipment, a small studio, a full size basketball court, a 300 sq. ft. childcare area, and locker rooms with sauna and steam rooms. Fitness 101 has 1,800 members and charges $64 per month and $75 to join. This facility is not directly competitive with RCS.

3. **Reach Fitness Club –** This club in Palo Alto is a small group exercise facility with very limited services or amenities but includes a Pilates studio (at another location.) It is not directly competitive with the RCS facility. Dues are $62 per month on average and initiation fees are $225.

Competitors within 10 min vs. 15 min drive time zones



4. **24-Hour Fitness Active –** This is a formula – franchise type facility in San Carlos, oriented towards young people and singles. Their fees are very low from $24 to $46 per month, and as their name implies they are open 24-hours per day. Initiation fees are also very low.

5. **Optimal Fitness –** This is a personal training type facility (approx. 3,000 sq. ft.). Most of the membership uses this facility for medical and rehab type uses. According to the club manager, there is a strong group exercise component at this facility as well as massage, sports therapy, and nutrition programming. This club charges $130 per month and from $200 to $700 to join.

6. **Pacific Athletic Club (PAC) –** This is the only club in the area that has the facilities to compete with a Renaissance ClubSport. Although this club is six miles from the proposed site, it may compete with potential commuting members.

   According to their website, "The Pacific Athletic Club opened in 1992 with a full membership. Situated on almost ten acres in Redwood Shores, California, the upscale facility is considered more of a "sports resort". A wealth of offerings include 9 tennis courts, 5 international squash courts, an 8-lane activity pool, a 6-lane adult only pool, recreational pool, a wading pool for children, gymnasium, kickboxing studio, indoor cycling studio, two group exercise studios, Pilates center, and a 15,000 square foot fully-loaded fitness center."

   Parking at this club is inconvenient. Because the lot is configured in a long rectangular shape, the front of the lot fills quickly and most members have to park long distances from the entrance to the club. Although the club has tried to remedy the problem through valet parking, at peak hours the valet station is overwhelmed and inconvenient.

7. **24-Hour Fitness Sport –** This facility is similar to the San Carlos club with a similar fee structure and initiation fees. This club is about 40,000 sqft.

8. **Gold's Gym –** This club in San Mateo has a reputation for serious weight lifting but has branched out into the group exercise market in recent years. They are typically small to medium sized facilities but they offer very few amenities or services. They are not directly competitive with RCS, although they are a popular chain of clubs in the Bay Area.

9. **Vivre Fitness –** This club is a small (approx. 8,000 sq. ft) executive type facility that has 300 members and very little parking. The club is located one block off of University Ave. in Palo Alto. The facility is two levels with 10 pieces of cardio, free weights, a small spinning studio, and childcare on the first floor. The second floor contains a small group exercise studio, men's and women's locker rooms, and administrative offices. The club is located in an older building and does not

have a pool, sauna, steam, or hot tub. Other amenities included: 100 sq. ft. babysitting area; free bottled water and towels; and free Peet's coffee

Monthly membership dues for a single membership were $142 a month after an initiation fee of $800. The dues for this club did not seem to be in line with what they were offering.

10. **Gold's Redwood City–** This club, formerly Redwood City Athletic Club**,** is a lower priced club with about 3,200 members. They offer group exercise, basketball and racquet ball and an all women's workout area. Monthly fees range from $19 to $39 per month and initiation fees range from zero to $199. This club, due to price and limited services offered, is not directly competitive with RCS.

11. **YMCA of the Mid-Peninsula –** YMCA facilities are non-profit facilities that offer affordable fitness opportunities oriented towards families and children. Monthly fees average $59 per month, with initiation dues at about $80. They currently have about 2,400 members. This facility, located in Redwood City, is also not expected to directly compete with RCS due to the large differences in price, although they both serve families.

12. **Foothills Tennis and Swimming Club –** This private club in Palo Alto is not a true athletic facility but rather primarily a tennis club. It has a very small fitness component with 810 sqft area for workout. Foothills also offers competitive youth programs in swimming and tennis. Dues are $480 quarterly and initiation dues are $9,680. The overall size and number of members is not available. The RCS may compete for some members with this facility.

CONCLUSIONS

While a number of existing fitness facilities are in the 5-mile market area defined for the proposed RCS site, virtually all are not directly comparable in size and type to compete with the RCS project. Renaissance ClubSport should not directly impact existing fitness clubs in Menlo Park because it is targeting a very different segment of the athletic club market. While the majority of the other smaller clubs in the area are targeting members that are looking for a quick workout at a low price, RCS is targeting members that are looking for a resort style, club experience. RCS members will spend time working out, visiting with friends in our group exercise classes, relaxing in the day spa, playing with their kids in the outdoor aquatics area, dining in the restaurant, etc.. Because of these very different market segments and the simple fact there is no other high-end offering in the immediate area, Renaissance ClubSport and the other clubs in the area can perform well while serving their respective target markets. The site demographics meet or exceed all the requirements of RCS in terms of population and employment density, household income, and travel time. The RCS would require capture of 3% of the potential employment market and 5% of the population market to meet its objectives for membership.

Table 1
Summary of Fitness/Gym Demand Indicators
in 3- or 5- mile radius
Bohannon Fitness Club Market Analysis

Item	Menlo Park Site 3-Mile Radius	Menlo Park Site 5-Mile Radius	Walnut Creek RCS 3-Mile Radius	Walnut Creek RCS 5-Mile Radius	4 Site Averages (1) 3-Mile Radius	4 Site Averages (1) 5-Mile Radius
Population	113,907	229,401	129,013	253,653	85,217	183,233
Menlo Park as % of Walnut Creek	88%	90%				
Menlo Park as % of 4 Sites	134%	125%				
Household Income	$127,393	$146,337	$103,793	na	$120,737	na
Menlo Park as % of Walnut Creek	123%	na				
Menlo Park as % of 4 Sites	106%	na				
Employment	64,693	136,157	73,854	119,172	57,526	103,047
Menlo Park as % of Walnut Creek	88%	114%				
Menlo Park as % of 4 Sites	112%	132%				
Total Businesses	6,718	12,727	8,644	14,655	4,885	8,975
Menlo Park as % of Walnut Creek	78%	87%				
Menlo Park as % of 4 Sites	138%	142%				
Households by Type						
% Family Households (3mi)	61%	na	60%	na	70%	na
% Non-family Households (3mi)	39%	na	40%	na	30%	na
Entertainment/Recreation Spending	$5,831		$4,555		$5,706	
Menlo Park as % of Walnut Creek	128%					
Menlo Park as % of 4 Sites	102%					

(1) The four site average includes the Walnut Creek RCS and three Leisure Sports Facilities: Pleasanton, Fremont and Tigard, Oregon.
The three Leisure Sports are all 100,000 sqft, high end fitness facilities.
Sources: ESRI; RCS Leisure Sports; Brion & Associates.

Table 2
Potential Market and Demand for Gyms
Bohannon Fitness Club Market Analysis

Items	**Assumptions**	**5-Mile Radius from Menlo Park Site as of 2006**
Employment		136,157
Households with Income over $75,000		47,208
Population with $75,000 Income (1)	2.5	118,020
RCS Target Membership (employees and population)	10,000	
RCS Target Membership Breakdown		
Employees at 40%	4,000	
Families, Couples, Singles at 60%	6,000	
RCS Target as Percent of Market Area		
Employment (4,000 emp. / 136,157 emp.)		3%
Population (6,000 pop. / 118,020 pop.)		5%

(1) Assumes persons per household factor of 2.5 based on ABAG Projections 2007.
Menlo Park and Redwood City.

Sources: ESRI; RCS Leisure Sports; Brion & Associates.

Table 3
Summary of Fitness Clubs, Athletic Clubs and Gyms
Bohannon Fitness Club Market Analysis

	Name	Address	City
1	Bay Front Fitness Club	161 Constitution Drive	Menlo Park
2	Fitness 101	40 Scott Drive	Menlo Park
3	Reach Fitness Club	707 High Street	Palo Alto
4	24 Hour Fitness Active	1650 Industrial Road	San Carlos
5	Optimal Fitness	963 A Industrial Road	San Carlos
6	Pacific Athletic Club	200 Redwood Shores Parkway	Redwood City
7	24 Hour Fitness Sport	550 Showers Drive	Mountain View
8	Gold's Gym - San Mateo	1150 Park Place	San Mateo
9	Vivre Fitness and Wellness	611 Emerson St.	Palo Alto
10	Gold's Gym (Redwood City Athletic Club)	515 Veterans Blvd	Redwood City
11	YMCA of the Mid Peninsula	1445 Hudson St	Redwood City
12	Foothills Tennis and Swimming Club	3351 Miranda Ave	Palo Alto

Sources: RCS Leisure Sports; Brion & Associates.

Table 4
Summary of Amenities and Activities by Fitness Facility
Bohannon Fitness Club Market Analysis

Service, Amenity or Activities	***Proposed Renaissance Club Sport***	**1 Bayfront Fitness Club**	**2 Fitness 101**	**3 Reach Fitness Club**	**4 24 Hour Fitness Active**	**5 Optimal Fitness**	**6 Pacific Athletic Club**
City	*Menlo Park*	Menlo Park	Menlo Park	Palo Alto	San Carlos	San Carlos	Redwood City
Sq. Ft. of Space	***70,000***	6,000	15,000	10,000	40,000	3,000	85,000
Number of Members	***10,000***	500	1,800	na	na	na	5,000
Tennis	***N***	N	N	N	N	N	Y
Group Exercise	***Y***	Y	Y	Y	Y	Y	Y
Pool	***Y***	N	N	N	N	N	Y
Racquetball	***Y***	N	N	N	N	N	Y
Basketball	***Y***	N	Y	N	N	N	Y
Childcare	***Y***	N	Y	N	Y	N	Y
Childcare $	***Y***	N	$5/HOUR	N	$3/VISIT	N	$6.50/HOUR
Day Spa	***Y***	N	N	N	N	Y	Y
Sauna/Steam	***Y***	N	Y	N	Y	Y	Y
Whirlpool	***Y***	N	N	N	Y	N	Y
Physical Therapy	***Y***	Y	Y	Y	Y	Y	Y
Nutrition/WM	***Y***	N	Y	N	Y	Y	Y
Junior Programs	***Y***	N	N	N	N	N	Y
Towel	***Y***	Y	Y	N	N	N	Y
Other	*restaurant/café*			Pilates studio		infrared sauna	restaurant
Hours		M-F 5-9, SS 8-6	M-T 5-10, F5-9, SS 7-7	M-T 5-9, F 5-8, SS 7-6	24 HOURS	M-T 6-8, F 6-7, S 8-2, S 9-1	M-F 5-11, SS 7-9
Mo Dues Single	***$142***	$55	$64	$62	$24-$46	$130	$174-$141
Initiation Fees	***$650(single)***	$99	$75	$225	$0-$100	$250-$700	$1,450-$1,850

Note: na means "not available" in this case.
Sources: IHRSA; RCS Leisure Sports; Brion & Associates.

Table 4
Summary of Amenities and Activities by Fitness Facility
Bohannon Fitness Club Market Analysis

Service, Amenity or Activities	7 24 Hour Fitness Sport	8 Gold's Gym	9 Vivre Fitness and Wellness	10 Gold's Redwood City (Redwood City Athletic Club)	11 YMCA of the Mid Peninsula	12 Foothills Tennis and Swimming Club
City	Mountain View	San Mateo	Palo Alto	Redwood City	Redwood City	Palo Alto
Sq. Ft. of Space	40,000	40,000	8,000	na	na	810
Number of Members	na	na	300	3,200	2,400	na
Tennis	N	N	N	N	N	Y
Group Exercise	Y	Y	Y	Y	Y	N
Pool	Y	N	N	Y	Y	Y
Racquetball	N	N	N	N	N	N
Basketball	N	N	N	Y	Y	N
Childcare	Y	N	Y	Y	Y	Y
Childcare $	$3/VISIT	N	$5/VISIT	$2/2 HOURS	FREE	Y
Day Spa	N	N	N	N	N	N
Sauna/Steam	Y	N	N	Y	N	Y
Whirlpool	Y	N	N	Y	N	N
Physical Therapy	Y	Y	Y	Y	Y	N
Nutrition/WM	Y	Y	Y	Y	Y	N
Junior Programs	Y	N	N	na	Y	Y
Towel	N	N	Y	N	Y	Y
Other				all women's side		clubhouse
Hours	24 HOUR	M-T 5-12, F-5-11, S 7-9, S 8-8	M-T 5-9, F-5-7, S 7-6, S 8-4	M-F 5-10, F 5-9, S 8-6	M-T 5-10, F 5-8, S 7-6	6 am-11 pm
Mo Dues Single	$22-$49	$29-$49	$142	$19-39	$59	$480/quarterly
Initiation Fees	$130-$150	$0-$199	$800	up to $199	$80	$9,680