Memorandum

To: Thomas Rogers, City of Menlo Park

From: Ron Golem; Raymond Kennedy, BAE

Date: February 19, 2013

Re: Limited Market Analysis and Peer Review of Conley Consulting Group Memorandum Regarding Proposed Hotel Project in Menlo Park

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This memorandum presents BAE's findings from a peer review of the *Limited Economic Benefit Review* ("the CCG Memo") prepared by Conley Consulting Group (CCG) for Sand Hill Property Company (SHPC) for its proposed hotel project in Menlo Park. The CCG Memo consists of two major components: (1) a comparison of fiscal revenues (Transient Occupancy Tax or TOT; sales tax, property tax; and business license fee) from the proposed hotel compared to the current use; and (2) an estimate of job and economic impacts resulting from the project. The most recent version of the CCG Memo is dated January 18, 2013.

The purpose of this peer review is to evaluate the methodologies and data sources used for the study, assess the appropriateness and accuracy of its calculations, and provide an opinion as to the accuracy and comprehensiveness of the study and identify any items that should be addressed prior to the City's consideration of the study's findings. Because the proposed TOT revenues are the largest fiscal revenue source, but subject to variation based on market conditions, BAE also conducted a limited market assessment to verify assumptions made in the CCG Memo. This limited assessment includes an evaluation of the local market for lodging properties in the same segment as the proposed Residence Inn by Marriott, based on data purchased from Smith Travel Research (STR), the leading provider of data on hotel industry operations, and a review of planned and proposed projects. This information is used to evaluate the results of alternative room rate, occupancy, and TOT assumptions.

Project Description

SHPC proposes to convert an existing assisted-living facility at 555 Glenwood Avenue in Menlo Park into a Residence Inn by Marriott hotel. Residence Inn is an extended stay hotel chain, providing more amenities, such as kitchens and larger spaces including separate bedrooms, than a conventional hotel. Unlike a traditional, full-service hotel, extended stay hotels do not contain on-site restaurants or lounges, and generally have more limited meeting space. The target market for extended stay hotels includes business travelers with long-term assignments in an area, families in transition seeking temporary housing, and other guests seeking a more "home-like" environment.

The proposed hotel would have 138 rooms/suites, and would not change the existing 113,803 square-foot building footprint, relying instead on substantial remodeling and rehabilitation for the conversion to hotel use.

Approach to the Review

The peer review involves the following steps: (1) review of the CCG Memo and other background documents, including the staff report for the Council study session of October 30, 2012; (2) a telephone interview with Conley Consulting Group regarding its methodology and approach and findings; (3) mathematical analysis of the key assumptions and findings in the CCG Memo; and (4) a limited market analysis to provide another perspective on the reasonableness of the assumptions in the CCG Memo.

The review we conducted is based on our experience in doing fiscal impact and market analysis for numerous communities throughout California, as well as our experience in evaluating lodging property feasible in a number of US jurisdictions. We are familiar with the City of Menlo Park in particular due to our previous and ongoing work preparing fiscal impact analysis for various projects in the City.

Summary of Findings

Market Analysis

Residence Inn is one of the multiple brands under the umbrella of Marriott International, Inc. Residence Inn is classified by STR as an upscale chain hotel. In San Mateo and Santa Clara County, Residence Inn has more extended stay hotels and rooms than any other upscale chain, accounting for 8 of the 19 properties and 1,186 of the 2,704 rooms/suites in this segment.

The upscale chain extended stay hotel type is a market niche that is currently unfilled in Menlo Park. The extended stay upscale chain property closest to Menlo Park is the Residence Inn several miles away in Los Altos, owned by SHPC and used as the performance benchmark by CCG for the proposed project. SHPC brands this property as the Residence Inn Palo Alto/Los Altos in order to leverage the attraction of Palo Alto proximity. To the north, the closest comparable property is the Hyatt House in Belmont. Since the Los Altos Residence Inn is the closest similar hotel, the CCG Memo's use of the Los Altos Residence Inn for benchmarking the performance of a similar facility in Menlo Park is appropriate.

STR data shows that the annual average occupancy for a sample of upscale extended stay hotels in San Mateo and Santa Clara Counties declined from a peak of 81.8 percent in 2007 to 73.5 percent in 2009, with a substantial recovery to 83.7 percent in 2010, with average occupancy levels above 80 percent in 2011 and 2012. Occupancy rates for upscale chain extended stay hotels have consistently exceeded those for the overall upscale chain market segment (including full-service hotels) in the area. By 2010, annual room demand for upscale chain extended stay hotels exceeded demand in 2007, reaching approximately 546,000 room-nights. By 2012, annual room demand for this group of hotels climbed to about 585,000 rooms, showing that regional demand in this market segment continues to grow. Revenue trends also showed a decline related to the recession, but by 2012 revenues had surpassed pre-recession levels. In 2012, the average daily rate (ADR) for the upscale chain extended stay segment averaged $150 per night, a 10 percent increase over 2011, and RevPAR (daily revenue per available room[1]) averaged $123, a 12 percent increase over 2011. As context, STR reports that for all hotels tracked nationally, occupancy in 2012 averaged 61.4 percent, so the local extended stay market appears to be strong.

Within San Mateo and Santa Clara County, the highest room rates for upscale chain extended stay hotels were found at the Los Altos Residence Inn, which as noted previously is the hotel in this market segment in closest proximity to Menlo Park. The next highest rates were at the Residence Inn in Mountain View. These rates are a strong indicator that within the larger San Mateo / Santa Clara County market, Menlo Park and nearby communities to the south are a strong submarket for hotels, due to the resurgent high tech sector in the area, as exemplified by growth by Apple, Facebook, Google, and other companies along with new start-ups. The strong local hotel performance is also indicated by data for the Los Altos Residence Inn as reported by SHPC; in 2011 that Residence Inn reported average occupancy of 82.8 percent and an average daily rate of $171.31, for a RevPAR of $140.59, higher than the occupancy, average daily rate and RevPAR figures reported by STR for area upscale chain extended stay hotels as discussed above.

An additional survey by BAE of Menlo Park and surrounding communities found limited additional competitive hotel supply in the pipeline. The only project currently under consideration is a 230-room full-service Renaissance ClubSport hotel as part of the Menlo Gateway project in Menlo Park. Although the project has received all discretionary approvals, City staff report that the developer is having difficulty obtaining financing for this hotel, so the schedule for development is uncertain. City staff noted three smaller independent hotels in Menlo Park that were currently undergoing or proposing upgrades. These three hotels (the Menlo Park Inn, the Red Cottage Inn, and the Mermaid Inn) total approximately 100 rooms. The Mermaid Inn is currently in discussion with the City regarding a possible increase in their room count, but the other hotels are not adding rooms. Based on BAE interviews with property owners of these three hotels, only the Red Cottage Inn targets extended stay customers.

This limited market analysis indicates that the market for upscale extended stay hotels in the area of Menlo Park has rebounded from 2009 recession levels, with occupancies, room rates, and demand exceeding levels found prior to the recession. The highest room rates are focused in the core area of Silicon Valley near Menlo Park. Looking at the geographic distribution of this hotel type in the area shows a “gap” in the Menlo Park area, indicating strong potential demand for the proposed hotel project at 555 Glenwood Avenue.

CCG Memo Peer Review

The CCG Memo consists of two major components: 1) a comparison of fiscal revenues from the proposed hotel and the current use; and 2) an estimate of job and economic impacts resulting from the project. CCG used data provided by the developer from the Los Altos Residence Inn to generate its fiscal revenue estimated for the proposed project.

Transient Occupancy Tax

Transient occupancy tax (TOT) is by far the proposed project’s largest estimated generator of revenues for the City of Menlo Park. Following approval of a voter-approved increase in the tax in November 2012, the City’s TOT rate is now 12 percent of room revenues for guests staying

[1] RevPAR is calculated as ADR x occupancy rate = RevPAR.

30 days or less. The CCG Memo estimates TOT revenues to the City of $656,025 annually. The estimate is based on RevPAR from the Los Altos Residence Inn times the number of rooms in Menlo Park, on the assumption that the two hotels would have similar performance. CCG makes an adjustment for stays of more than 30 days, for which local jurisdictions do not collect TOT revenues. This 23 percent adjustment downward in TOT due to stays of thirty or more days (based on the experience of the Los Altos facility) seems to be of an appropriate order of magnitude, given that the reported national rate for stays of five days or more at Residence Inn was 43.8 percent. BAE's market analysis indicates that this area commands higher room rates than the larger region, and the Menlo Park facility will also serve an area overlapping the area including Palo Alto served by the Los Altos Residence Inn (that hotel is referred to as the "Residence Inn Palo Alto Los Altos").

Based on the STR trends data, overall long-term demand continues to increase, so even with any additions to the hotel room inventory, the market in the near-term may be able to sustain higher occupancy levels and room rates. However, it is also possible that the TOT revenues as estimated by the CCG Memo could be overstated, especially over the long-term. Absent a full market study, it is not possible to definitively estimate whether the new Menlo Park Residence Inn would perform at the same level as the SHPC Los Altos Residence Inn, or whether the new facility might impact revenues at other hotels in the City and thereby create off-setting reductions in TOT revenues to the City. Occupancy levels and room rates today are at peak levels relative to the last several years, and the well understood boom-and-bust nature of the Silicon Valley economy means that over the long term ADR and occupancy rates will vary, leading to changes in TOT receipts. Finally, there may be other new proposed lodging projects proposed based on the currently strong market conditions, which could further impact the performance of existing hotels. Thus, even if the new hotel achieves the levels of TOT assumed by the CCG Memo, there is some risk that TOT revenue generation would be somewhat lower, particularly during future economic downturns.

Alternative TOT Calculation

BAE has generated a somewhat more conservative estimate of TOT to the City of Menlo Park. This estimate takes into account longer-term regional trends in occupancy and room rates from 2006 through 2012, adjusting for the higher room rates as indicated by revenues at the Los Altos Residence Inn, as described in the expanded section of this memo on the limited hotel market analysis. Based on these adjustments, the proposed hotel would approximately $615,000 in annual TOT revenues to the City of Menlo Park. The approximately six percent reduction in projected annual TOT revenues that this figure represents even after accounting for the recent market cycle should be considered within the same order of magnitude as the TOT estimate in the CCG Memo. It reinforces the potential for the project to develop significant new fiscal revenues for the City.

Sales Tax

Sales tax is estimated by CCG based on revenue numbers from the Los Altos facility provided by the developer and adjusted for the size of the proposed project. The CCG Memo states that the existing facility generates no sales tax directly. The estimated taxable sales from the new hotel would total approximately $111,000 annually.

Because Menlo Park receives a small share of sales tax (slightly less than one percent of the amount of sale), the tax revenue to Menlo Park is estimated by CCG at only about $1,100 annually. SHPC provided a slightly lower estimate of sales tax generation to BAE than was used in the CCG Memo, for a total of $8,607 in total sales tax paid for food & beverage and dry cleaning, with no sales tax generated by movie rentals as assumed by CCG. As a result, the sales tax generation may be slightly overstated, but the change in revenues relative to overall fiscal revenues would be minimal. In part because the facility does not include a restaurant or bar, the total taxable sales revenues are very small relative to TOT. Even if the proposed project generated no taxable sales, the impacts on fiscal revenue for the City of Menlo Park would be minimal.

Property Tax

The CCG Memo estimates property tax generation based on a value arrived at by combining two components: the current assessed value and a developer-provided estimate of value added via the conversion to hotel use. The current total assessed value of the property is $23,725,777. SHPC has estimated that the improvements to the property will add an additional $10,000,000 to the assessed value, for a total assessed value of approximately $34,000,000. SHPC has not yet purchased the property, considers information on the terms of its potential purchase to be confidential, and did not provide this information to CCG or BAE.

Given that the property has not been significantly modified or changed ownership in recent years, using assessed value to estimate the sales price appears to be a conservative assumption. Further detail on the value added through renovations and improvements was not available. One point of comparison would be recent hotel sales in the area, but limited research yielded few recent hotel sales in the area. The *San Francisco Business Times* reported in December 2012 that in San Francisco several large hotel property purchases were for more than $230,000 per room. Applying this figure to this proposed project would indicate a value of $31.7 million, within the same order of magnitude as estimated in the CCG Memo.

In any case, CCG estimates Menlo Park's share of the property tax increment amounts to only approximately $10,000 annually. While greater than the sales tax generation, compared to the revenues generated by the TOT, this amount is small, and any variation in assessed value from the CCG Memo's estimate will likely not significantly affect overall tax revenue generation to the City.

Business License Fee

The CCG Memo estimates that the City's Business License fee will be $2,500, based on annual revenue of $7.2 million. BAE's calculation generated an estimated of $2,250 annually. As with the property taxes, however, the revenue generated by this item is extremely small relative to the TOT, and the difference between the CCG and BAE numbers is minimal.

Economic Impact

The CCG Memo presents an estimate of increased jobs and economic activity due the conversion of the facility to an extended stay hotel. This estimate is generated using the IMPLAN input-output model, which estimates the flow of dollars as they circulate through the local economy and generate additional jobs and expenditures. IMPLAN is a standard tool for this purpose, and CCG's use is appropriate in this context. BAE has verified CCG's findings. It should be noted, as it is in the CCG Memo, that the direct jobs at the facility are in Menlo Park, but that the "local area" where the expenditures and other jobs are generated is the entirety of San Mateo County due to the limitations of what the IMPLAN model can calculate.

Summary of Peer Review
BAE finds that the methodology used by CCG in estimating fiscal revenues to Menlo Park and economic impacts in the County from the proposed project is generally appropriate. However, the CCG TOT estimate is based on current strong market conditions. Over the long term, annual TOT generation may average somewhat lower than estimated by CCG due to the cyclical nature of the Silicon Valley economy, as well as potential future competing properties.

CCG's estimate of property taxes is constrained by limited information on the current value of the property and the cost to convert and upgrade the existing facility to an extended stay hotel, but appears to be of the correct order of magnitude; in any case, property tax revenue to the City is small compared to the TOT revenue. Sales tax and business license fees would be a very small source of revenue from the proposed project, and any differences between CCG's calculations and BAE's are insignificant.

Limited Hotel Market Assessment

The purpose of this section is to provide an additional overview of the hotel market in Menlo Park and surrounding communities, particularly with respect to the upscale chain extended stay segment. The CCG Memo explicitly does not include any independent market assessment, relying instead on the performance of another similar SHPC property in Los Altos to estimate the likely revenues for the proposed project; the limited market assessment provides insight into whether the proposed project will generate TOT and other revenues at the levels assumed by the CCG Memo.

The analysis draws on performance and inventory data from area hotels provided by Smith Travel Research (STR) to compare the performance of upscale chain extended stay hotels (such as Residence Inn) in the region relative to all upscale chain hotels in general. In addition, Menlo Park and surrounding jurisdictions have been contacted to determine whether there are other planned and proposed hotels in the area that might compete with the proposed project.

Profile of Residence Inn
Residence Inn is one of the multiple brands under the umbrella of Marriott International, Inc. Other Marriott brands within the company include Marriott Hotels & Resorts, Courtyard, Renaissance Hotels, Fairfield Inn & Suites, and many others.

Residence Inn targets "upscale frequent business travelers" and "extended stay business travelers" seeking a hotel with amenities such as a 24-hour market, exercise rooms, larger suites, free hot breakfasts, and free grocery delivery.[2]

At year-end 2011, there were 614 Residence Inn in the U.S. and Canada, totaling 74,526 rooms. For 2011, average occupancy across the U.S. and Canada properties was 76.7 percent with an ADR of $115.41, for a RevPAR of $88.47.[3] By comparison, 2010 average occupancy was 75.3 percent with an ADR of $112.06 and a RevPAR of $84.41,[3] indicating a

[2] http://www.marriott.com/hotel-development/Residence-Inn.mi
[3] Marriott International, Inc. 2011 Annual Report.

modest improvement in market conditions from 2010 to 2011. For 2011, extended stay occupancy was reported at 43.8 percent.[4]

Existing Supply & Performance

Residence Inn by Marriott is classified by STR as an upscale chain hotel. However, not all upscale chain hotels are extended stay facilities comparable to the proposed project. Table 1 below provides a listing of extended stay upscale chain hotels located in San Mateo and Santa Clara Counties. Residence Inn has more hotels and rooms in the area in this category than any other chain, accounting for eight of the 19 properties and 1,186 of the 2,704 rooms/suites. The STR inventory counts 8,347 rooms currently available in the upscale chain category overall in the two counties.

This list shows a lack of extended stay upscale chain hotels in Menlo Park and surrounding cities (see Figure 1 on the next page). The closest property is the Residence Inn several miles away in Los Altos owned by SHPC and used as the performance benchmark by the CCG Memo for the proposed project. To the north, the closest comparable property is the Hyatt House in Belmont. This finding indicates (1) that the Los Altos Residence Inn may be the best facility to use for benchmarking the performance of a similar facility in Menlo Park and (2) a potential market niche that is currently unfilled in Menlo Park.

Table 1: Upscale Chain Extended Stay Hotels in San Mateo and Santa Clara Counties

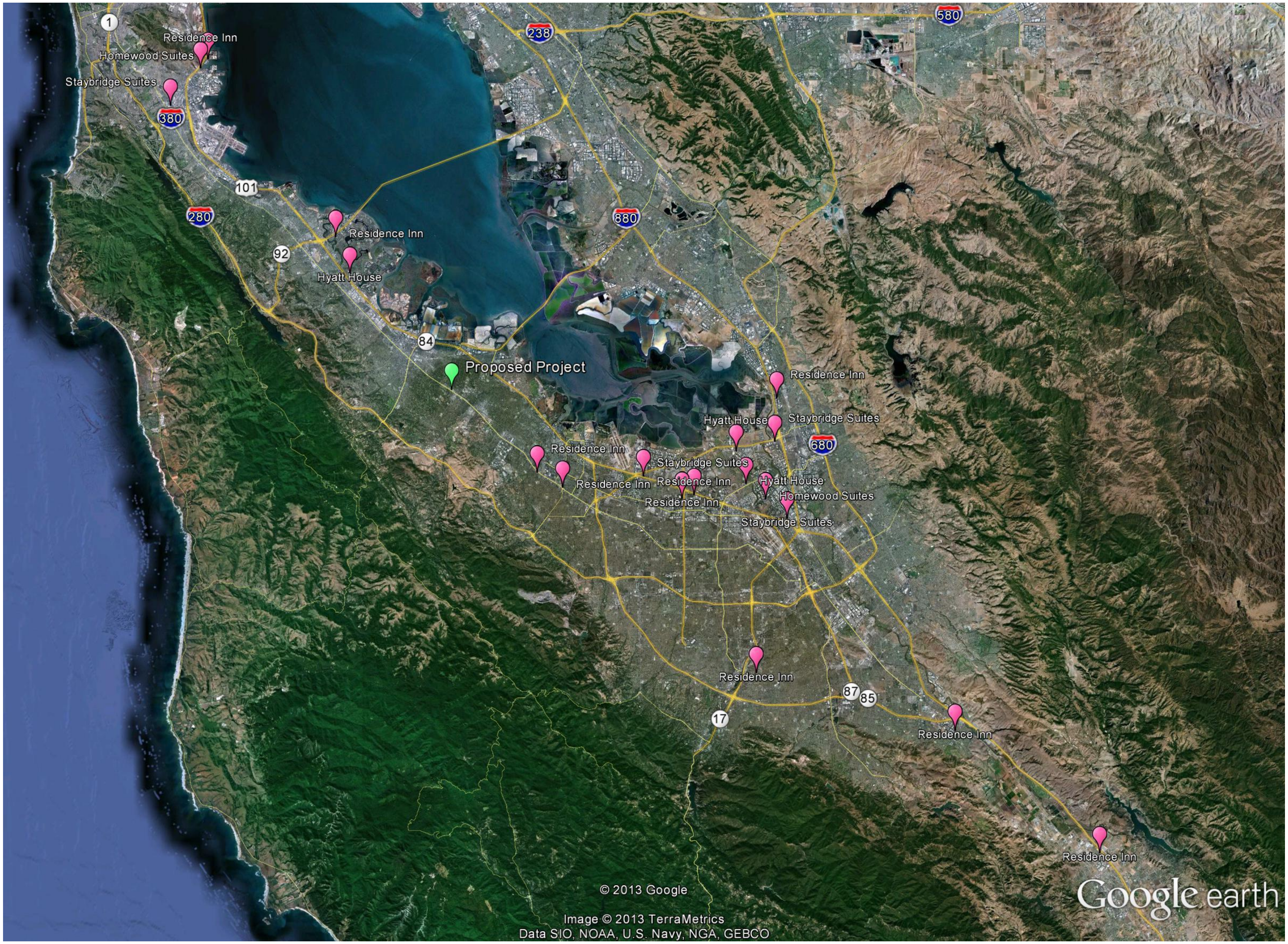
Name	City	County	Rooms
Homewood Suites San Francisco Airport North	Brisbane	San Mateo	177
Hyatt House Belmont Redwood Shores	Belmont	San Mateo	132
Residence Inn San Francisco Airport Oyster Point Waterfront	South San Francisco	San Mateo	152
Residence Inn San Francisco Arprt San Mateo	San Mateo	San Mateo	160
Staybridge Suites San Francisco Airport	San Bruno	San Mateo	92
Homewood Suites San Jose Airport	San Jose	Santa Clara	140
Hyatt House San Jose Silicon Valley	San Jose	Santa Clara	164
Hyatt House Santa Clara	Santa Clara	Santa Clara	150
Residence Inn Milpitas Silicon Valley	Milpitas	Santa Clara	120
Residence Inn Palo Alto Los Altos	Los Altos	Santa Clara	156
Residence Inn Palo Alto Mountain View	Mountain View	Santa Clara	112
Residence Inn San Jose Campbell	Campbell	Santa Clara	80
Residence Inn San Jose South	San Jose	Santa Clara	150
Residence Inn San Jose South Morgan Hill	Morgan Hill	Santa Clara	90
Residence Inn Sunnyvale Silicon Valley I	Sunnyvale	Santa Clara	231
Residence Inn Sunnyvale Silicon Valley II	Sunnyvale	Santa Clara	247
Staybridge Suites Hotel Silicon Valley Milpitas	Milpitas	Santa Clara	99
Staybridge Suites San Jose	San Jose	Santa Clara	114
Staybridge Suites Sunnyvale	Sunnyvale	Santa Clara	138

Note: Includes hotels reporting in STR database

Source: http://www.biz-stay.com; STR, 2013.

[4] Defined as the total extended-stay rooms (defined as any stay of five or more consecutive nights) divided by total available rooms. Note that US figures will be considerably lower than typical of the higher cost Bay Area. *Residence Inn Financial Performance Representations* is available at: http://www.marriott.com/Multimedia/PDF/Hotel_Development/ResidenceFDD.pdf

Figure 1: Upscale Chain Extended Stay Hotels in San Mateo and Santa Clara Counties



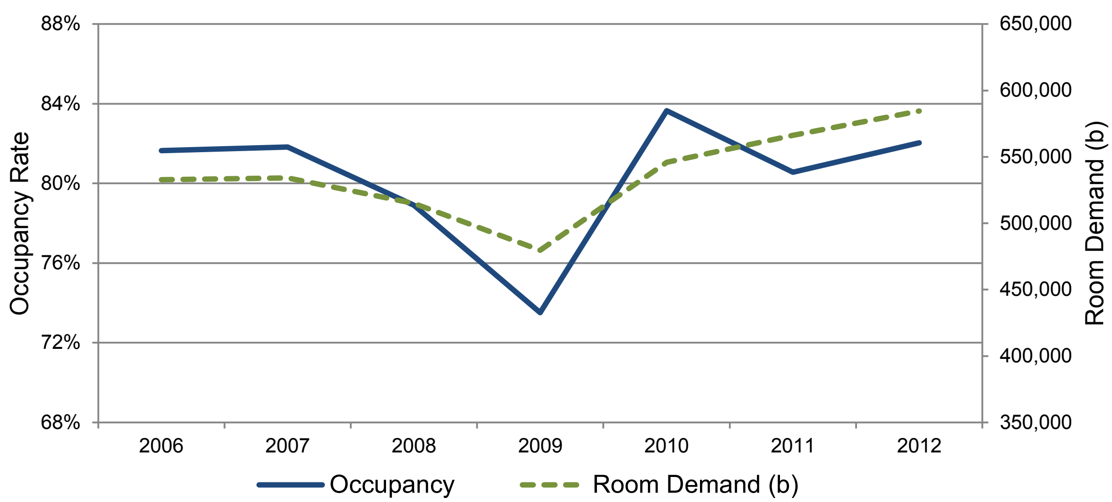
Performance Trends

STR data also provide a comparison between the performance of the area's upscale chain extended stay hotels and the performance of upscale chain hotels overall, showing occupancy and revenue trends over the last several years. The inventory of upscale chain extended stay hotels used for the performance analysis includes only 13 of the hotels in Table 1; the hotels farthest away from Menlo Park were excluded (e.g., Morgan Hill, South San Jose), and due to STR disclosure rules limiting the number of rooms from one chain, it was necessary to create a sample that also excluded the Residence Inn in South San Francisco, San Mateo City, and Milpitas.[5]

As shown in Figure 2, annual average occupancy for the upscale extended stay hotels declined from a peak of 81.8 percent in 2007 to 73.5 percent in 2009, with a substantial recovery to 83.7 percent in 2010, with occupancy levels staying above 80 percent in 2011 and 2012. Occupancy rates for the upscale extended stay hotels have consistently exceeded those for the overall upscale chain market segment. As context, STR reports that for all hotels tracked nationally, occupancy in 2012 averaged 61.4 percent,[6] so the local extended stay market appears to be strong.

Also by 2010, annual room demand for the upscale extended stay hotels exceeded demand in 2007, reaching approximately 546,000 room-nights. By 2012, annual room demand for this group of hotels climbed to about 585,000 rooms, showing that demand in this market segment continues to grow.

Figure 2: Occupancy Rates & Room Demand, Upscale Extended Stay Hotels, 2006-2012 (a)



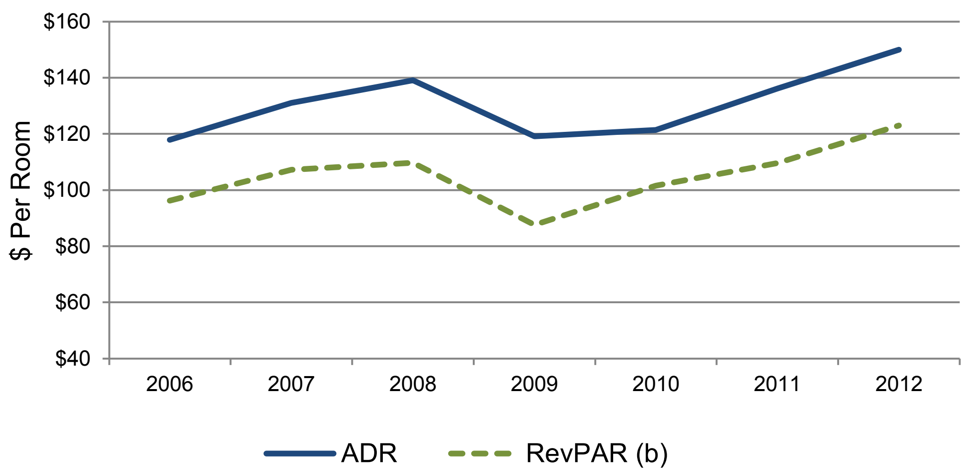
(a) Based on a sample of 13 upscale chain extended stay hotels in San Mateo and Santa Clara Counties as discussed above in text. Figures do not represent a 100 percent count of all upscale chain extended stay hotels in the two counties.
(b) Room demand represents the number of rooms sold over a given time period, excluding complimentary rooms.
Sources: STR; BAE, 2013.

[5] Specifically, the hotels excluded are the Residence Inn in South San Francisco, San Mateo, Milpitas, Campbell, San Jose, and Morgan Hill.
[6] "STR: US hotels report continued growth in 2012," STR, January 22, 2013, http://www.hotelnewsnow.com/Articles.aspx/9748/STR-US-hotels-report-continued-growth-in-2012.

Revenue trends also show a decline related to the recession, but by 2012 revenues had surpassed pre-recession levels (see Figure 3). In 2012, the average daily rate (ADR) for the upscale chain extended stay segment averaged $150 per night, a 10 percent increase over 2011, and RevPAR (revenue per available room) averaged $123, a 12 percent increase over 2011. In comparison, the 2012 ADR for all upscale chain hotels in the two counties was $140, and RevPAR was $110.

In addition to the data from STR, BAE compiled basic room rate quotes ("rack rates") for a single-day stay and for a six-day stay at several of the upscale chain extended stay hotels closest to Menlo Park, including some Residence Inn properties that were excluded from the STR sample. As shown in Table 2, the highest rates were for the Residence Inn in Los Altos, the hotel closest to Menlo Park. The next highest rates were at the Residence Inn in Mountain View. These rates are a strong indicator that within the larger San Mateo/ Santa Clara County market, Menlo Park and nearby communities to the south are currently a strong submarket for hotels, likely due to the resurgent high tech sector in the area, as exemplified by Apple, Facebook, Google, and other companies. The strong local hotel performance is also indicated by data for the Los Altos Residence Inn as reported by the developer; according to SHPC, in 2011 that Residence Inn reported average occupancy of 82.8 percent and an average daily rate of $171.31, for a RevPAR of $140.59;[7] in comparison, in 2011 the STR sample of upscale chain extended stay hotels as discussed above showed occupancy of 80.6 percent, and ADR of only $136.11, and RevPAR of only $125.61.

Figure 3: ADR and RevPAR Upscale Extended Stay Hotels, 2006-2012 (a)



Notes:
(a) Based on a sample of 13 upscale chain extended stay hotels in San Mateo and Santa Clara Counties as discussed above in text. Figures do not represent a 100 percent count of all upscale chain extended stay hotels in the two counties.
(b) RevPAR, or Revenue per Available Room, is calculated by dividing total room revenue by the total supply of rooms for a given period.
Sources: STR; BAE, 2013.

[7] Personal communication from Reed Moulds, Managing Director, Sand Hill Property Company, January 30, 2013.

Table 2: Comparison of Room Rates at Local Upscale Chain Extended Stay Hotels

Hotel	City	Daily Rate Number of Days 1		Daily Rate Number of Days 6	
Homewood Suites San Francisco Airport North	Brisbane	$229		$209	
Hyatt House Belmont Redwood Shores	Belmont	$237		$206	
Residence Inn San Francisco Airport Oyster Point Waterfront	South San Francisco	$249		$219	
Residence Inn San Francisco Arprt San Mateo	San Mateo	$249	(a)	$219	(a)
Staybridge Suites San Francisco Airport	San Bruno	na	(b)	$207	
Residence Inn Palo Alto Los Altos	Los Altos	$299		$269	
Residence Inn Palo Alto Mountain View	Mountain View	na	(b)	$259	(a)
Residence Inn Sunnyvale Silicon Valley I	Sunnyvale	na	(b)	$219	
Residence Inn Sunnyvale Silicon Valley II	Sunnyvale	na	(b)	$249	(c)
Staybridge Suites Sunnyvale	Sunnyvale	$228		$210	

Notes:
Based on basic room rates on web sites for a basic one-bedroom unit, except as noted . For consistency, all queries were made on the same day, and for the same time period. Single-day based on March 6, 2013; extended stay based on March 3-9, 2013.
(a) Rate shown is for a studio unit; no 1-BR units available.
(b) No rooms available at time of query for a single night on March 6.
(c) Rate is for a 1 BR, bi-level suite with loft w 2 baths; studio rate is $209.

Source: Hotel websites; BAE, January, 2013.

Planned and Proposed Competition

A survey of Menlo Park and surrounding communities found limited additional competitive hotel supply in the pipeline. The only new project currently under consideration is a 230-room hotel proposed as part of the Menlo Gateway project in Menlo Park. Although the project has received all discretionary approvals, City staff report that the developer is having difficulty obtaining financing for this hotel, so the schedule for development is uncertain.[8] City staff noted three smaller independent hotels in Menlo Park that were currently undergoing or proposing upgrades. These three hotels (the Menlo Park Inn, the Red Cottage Inn, and the Mermaid Inn) total approximately 100 rooms. The Mermaid Inn is currently in discussion with the City regarding a possible increase in their room count, but the other hotels are not adding rooms. BAE interviews with property owners indicated that only the Red Cottage Inn targets extended stay customers.

Alternative TOT Projection

BAE has generated a somewhat more conservative estimate of TOT to the City of Menlo Park. This estimate takes into account longer-term trends in occupancy and room rates as discussed in the analysis of STR data, adjusting for the higher room rates as indicated by revenues at the Los Altos Residence Inn (see Table 3 for the step by step calculations). Based on these adjustments, the proposed hotel would approximately $615,000 in annual TOT revenues to the City of Menlo Park.

[8] Phone call with Thomas Rogers, Senior Planner, City of Menlo Park, January 9, 2013.

The approximately six percent reduction in projected annual TOT revenues that this lower projection represents, even after accounting for the recent market cycle, reinforces the potential for the project to develop significant new fiscal revenues for the City. This alternative calculation for potential TOT should be considered to be within the same order of magnitude as the TOT estimate in the CCG Memo.

Table 3: Alternative Estimate of Transient Occupancy Tax

A	Average Vacancy for STR Sample of Upscale Extended Stay Hotels, 2006-2012	80.3%	Average of data in Figure 2
B	ADR, Los Altos Residence, 2011	$171.31	From SHPC
C	Average ADR for STR Sample of Extended Stay Hotels, 2011	$136.11	From Figure 3
D	Ratio of Los Altos Residence Inn ADR to Sample ADR, 2011	1.259	B/C
E	Average ADR for STR Sample of Upscale Chain Extended Stay Hotels, 2006-2012	$130.67	Average of data in Figure 3
F	Estimated ADR for Los Altos Residence Inn 2006-2012	$164.46	D*E
G	Estimated RevPAR for Los Altos Residence Inn 2006-2012	$132.07	A*F
H	Number of Rooms in Proposed Hotel	138	Development plan
I	Estimated Average Annual Total Room Revenue	$6,652,551	G*H*365
J	Percent Long-Term Stays	23%	From Conley Memo
K	Room Revenue Subject to TOT	$5,122,464	I*(1-J)
L	**Alternative Estimate of Annual TOT**	**$614,696**	**K*12%**

Source: BAE, based on information from STR, SHPC, and CCG.